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PUC DOCKET NO. 53428

APPLICATION OF AQUA TEXAS,	§	BEFORE THE PUBLIC UTILITY
INC. FOR SYSTEM IMPROVEMENT	§	
CHARGES PURSUANT TO 16 TAC	§	COMMISSION OF TEXAS
§ 24.76	§	

AQUA TEXAS, INC.’S RESPONSE TO ORDER NO. 9

Aqua Texas, Inc. (Aqua or Applicant) files this response to Order No. 9 pursuant to 16 TEX. ADMIN. CODE (TAC) § 22.78(a) in this matter considering Aqua’s Application for System Improvement Charges (SICs) under Texas Water Code (TWC) § 13.183(c) and 16 TAC § 24.76 (Application).¹ Responsive pleadings are due “within five working days after receipt of the pleading to which response is made” and this appeal is timely filed.²

Aqua’s application is not deficient and should be deemed administratively complete without delay. Order No. 9 adds two additional months for administrative review based on an alleged substantive Staff issue related to Application depreciation rates. Aqua disagrees with Staff’s characterization of that issue. Respectfully, the Application includes all required elements per the applicable SIC rule application requirements and should be found administratively complete. In support, Aqua shows as follows.

I. PROCEDURAL BACKGROUND

Aqua filed its Application on April 14, 2022.³ Applicant is requesting recovery of water and wastewater infrastructure that was built and has been in use serving Aqua water and wastewater customers starting in 2020 and 2021. On May 16, 2022, Staff filed its initial

¹ Order No. 9 Finding Application Deficient, Establishing Deadlines and Opportunity to Cure, and Withdrawing Request for Recommendation Regarding Hearing (Jul. 19, 2022) (Order No. 9); *see also* Commission Staff’s Second Recommendation on Administrative Completeness of the Application and Recommendation on Del Webb The Woodlands Resident Group’s Hearing Request (Jul. 18, 2022) (Staff’s Second Recommendation).

² 16 TAC § 22.78(a). Order No. 9 was issued July 19, 2022, so the general responsive pleading deadline is July 26, 2022.

³ Application (Apr. 14, 2022).

recommendation on administrative completeness identifying certain items as a basis to find the Application deficient.⁴ Two items related to depreciation issues.⁵ Order No. 4 adopted Staff's recommendation to find the Application administratively incomplete and provided a June 16, 2022 deadline for Aqua to cure the alleged deficiencies.⁶ On June 16, 2022, after discussions with Staff, Aqua responded to Order No. 4 with supplemental information.⁷ Aqua's supplemental information included testimony discussing the water and wastewater plant depreciation studies used as the source of group depreciation rates in the Application.⁸ With that testimony, Aqua also included the depreciation study documents as directed by Order No. 4 and Staff's First Recommendation.⁹ Per Staff's Second Recommendation and Order No. 9, it seems Aqua's filing sufficiently cured all alleged deficiency issues Aqua was required to cure by Order No. 4.¹⁰

Conversely, Staff's Second Recommendation filed July 18, 2022 raises a **new depreciation issue** which Aqua was directed to cure in Order No. 9.¹¹ Staff states:

I am unable to confirm that the depreciation rates that Aqua used to calculate annual depreciation expense as required by 16 TAC § 24.76(e)(7) meet the requirements of TWC § 13.131(c). The Texas Commission on Environmental Quality (TCEQ) cases that Aqua refers to in their supplemental filing made on June 16, 2022, were settled and I did not see that TCEQ approved depreciation rates in those cases. Therefore I recommend the application be found deficient unless Aqua can provide confirmation that the depreciation expense required by 16 TAC § 24.76(e)(7) was calculated using depreciation rates approved by the Commission or TCEQ.¹²

⁴ Commission Staff's Recommendation on Administrative Completeness at Memorandum from Heidi Graham (May 16, 2022) (Staff's First Recommendation).

⁵ *Id.* at Item Nos. 4 and 5.

⁶ Order No. 4 Finding the Notice Sufficient, Finding Application Deficient, Establishing Deadlines and Opportunity to Cure (May 17, 2022) (Order No. 4).

⁷ Aqua's Response to Order No. 4 and Supplemental Application Information (Jun. 16, 2022).

⁸ Aqua's Response to Order No. 4 and Supplemental Application Information, Supplemental Direct Testimony and Attachments of Kurt Scheibelhut at 4-5 (Jun. 16, 2022).

⁹ *Id.* at Attachments KAS-2 and KAS-3; *see also* Staff's First Recommendation at Item Nos. 4 and 5 (May 16, 2022) and Order No. 4 (Jun. 16, 2022).

¹⁰ Order No. 9 (Jul. 19, 2022); Staff's Second Recommendation (Jul. 18, 2022).

¹¹ *Id.*

¹² Staff's Second Recommendation at Memorandum from Heidi Graham (Jul. 18, 2022).

This is the sole basis for Staff’s Second Recommendation to find the Application administratively incomplete. Order No. 9 adopted that recommendation and established procedural deadlines stretching all the way into late September 2022 even though Aqua filed its Application over three months ago.

II. ARGUMENTS AND AUTHORITIES

There are three reasons why Order No. 9 is wrong. First, Staff’s issue is substantive and should not be used as grounds for an administrative deficiency. The SIC rule does not include a requirement that depreciation rates used for calculating depreciation expenses in a SIC filing be “depreciation rates approved by the Commission or TCEQ,” and the Commission has no specific SIC application form. Second, contrary to Staff’s contention, Aqua’s evidence shows its SIC Application depreciation rates were **filed, reviewed, and approved** in comprehensive water and sewer rate cases where a settlement was successfully reached. Third, Order No. 9 unreasonably does not allow any alternative means for Aqua to cure Staff’s alleged Application deficiency and show “proper and adequate” depreciation rates. Order No. 9 requires Aqua to now find written “confirmation” referencing specific affirmations of prior approval of one ratemaking item—depreciation rates—used in some type of order, presumably at the TCEQ.

For all these reasons, Order No. 9 has wrongly placed Aqua’s Application in limbo. Instead, Aqua’s Application should be deemed administratively complete.

A. Staff’s Depreciation Issue is Substantive, not Administrative

Aqua’s Application plainly complies with each element of 16 TAC § 24.76 (SIC rule),¹³ and there is no Commission SIC application form to complete. Nothing in the SIC rule specifies SIC deprecation must be presented in a certain way or use specific depreciation rates.¹⁴ The SIC

¹³ 16 TAC § 24.76(d).

¹⁴ 16 TAC § 24.76.

rule certainly does not say SIC depreciation rates must be previously “approved” by the Commission or TCEQ.¹⁵ In fact, the SIC rule allows SIC filings by utilities who may never have filed a comprehensive case so that they might avail themselves of the SIC rule’s benefits subject to reconciliation in a later comprehensive rate case.¹⁶ Staff’s assertion would require all water and wastewater utilities utilizing the SIC mechanism to locate, cite specific language in, and reference approved depreciation rates in a prior order. Simply put, the SIC rules do not require this, and water and wastewater utility rate case orders at the TCEQ did not go into this level of detail. Consequently, Aqua’s Application should not be deemed “deficient” for any reason including the depreciation issue Staff has raised.

Presumably, depreciation rates used in SIC calculations should be “proper and adequate” per TWC § 13.131(c) as Staff recommends,¹⁷ but whether depreciation rates used are proper and adequate or not is not dependent on prior Commission approval and is a substantive issue more appropriately reserved for hearing or, preferably, the later reconciling rate case.¹⁸ Put simply, Staff’s recommended condition for administrative completeness, which would require Aqua to confirm previously “approved” depreciation rates in a manner satisfactory to Staff, is procedurally improper as is Order No. 9.

B. Aqua’s Depreciation Rates are Approved

Aqua previously supplemented its SIC application with the depreciation studies containing depreciation rates used in Aqua’s most recent comprehensive rate case applications approved by

¹⁵ Compare 16 TAC § 24.76, with Staff’s Second Recommendation at Memorandum from Heidi Graham (Jul. 18, 2022).

¹⁶ See 16 TAC § 24.76(e)(3) (limiting reconcilable cost to the original costs of eligible plant installed after the later of the ending date of the 2019 reporting period reflected in the utility’s annual report . . . or the end of the test year used in the utility’s most recent base-rate proceeding) (emphasis added) and (e)(10) (allowing option to use “the average of the commission’s approved rates of return for water and sewer utilities” over the most recent three year period for after-tax overall rate of return); see also § 24.76(i) and (k) (requiring reconciling rate case within defined periods).

¹⁷ TWC § 13.131(c).

¹⁸ 16 TAC § 24.76 (i) and (k).

the TCEQ, together with the resulting final TCEQ orders that plainly approved those applications.¹⁹ Aqua emphasizes that, whether settled or fully litigated, the TCEQ did not generally include specific findings on every application issue in final orders when the TCEQ approved comprehensive rate applications.²⁰ A plain reading of the TCEQ orders approving prior Aqua cases showcases that no line item expense or issue was specifically noted in the orders. However, the TCEQ orders did state that the applications were approved and Aqua filed its depreciation rate proposals in each rate application. It was public record, transparent, and subject to discovery and challenge. Even in the fully-litigated statewide case filed by Aqua’s affiliates, findings on depreciation amounts in total are included in the final order.²¹ Nowhere are specific depreciation rate findings listed or specifically highlighted as “approved.”²² But that does not mean depreciation rates were not proposed, reviewed, and approved as part of the process.

In the cases with TCEQ orders Aqua presented in this docket, the record shows Aqua’s group depreciation studies and depreciation rates were plainly reviewed by Aqua’s regulator prior to settlement and application approval.²³ This was particularly true in SOAH Docket No. 582-14-1051; TCEQ Docket No. 2013-2007-UCR, *Application of Aqua Texas, Inc. and Aqua Utilities Inc. d/b/a/ Aqua Texas for Water and Sewer Rate/Tariff Changes in the Southeast Region in Chambers, Liberty, and Jefferson Counties*, CCN Nos. 11157, 13203, 20453, and 21065, *Application*

¹⁹ See Aqua’s Response to Order No. 4 and Supplemental Application Information, Supplemental Direct Testimony and Attachments of Kurt Scheibelhut at 4-5 (Jun. 16, 2022), which includes KAS-2 - Gannet Fleming Inc. Water Depreciation Study for Aqua Texas, Inc.; KAS-3 - Gannet Fleming Inc. Wastewater Depreciation Study for Aqua Texas, Inc.; KAS-4 – Order, Application No. 37235-R, Aqua Texas Southwest Region, SOAH Docket No. 582-12-6658; TCEQ Docket No. 2012-1058-UCR (June 3, 2012); KAS-5 – Order, Application No. 37234-R, Aqua Texas North Region, SOAH Docket No. 582-12-6658; TCEQ Docket No. 2012-1058-UCR (June 3, 2012); and KAS-6 – Order, Application Nos. 37696-R and 37697-R, Aqua Texas rate case for systems in Chambers, Jefferson, and Liberty Counties, Texas, SOAH Docket No. 582-14-1051, TCEQ Docket No. 2013-2007-UCR (July 17, 2014) (deciding in each case that “the application . . . is hereby approved”).

²⁰ Compare KAS-3, KAS-4, and KAS-5 (TCEQ Aqua settled rate case orders), with **Exhibit A** (TCEQ Final Order from fully litigated 2004 Aqua Texas statewide rate case).

²¹ See **Exhibit A** at Finding of Fact 65, Conclusion of Law 18, and Exhibits B-1 through B-6.

²² *Id.*

²³ Please see **Exhibit B** – Depreciation Support from Previous Rate Cases.

Nos. 37696-R and 37697-R for which the record shows Aqua responded to multiple discovery questions from TCEQ Executive Director Staff and the Office of Public Utility Counsel about Aqua’s group depreciation studies/rates and shows Aqua’s expert filed direct testimony and evidence on those depreciation issues.²⁴

This Commission may amend or replace a “rule, form, policy, procedure, or decision” of the TCEQ “related to a power, duty function, program, or activity” transferred to the Commission, but such “continues in effect as a rule, form, policy, procedure, or decision” of the PUC “and remains in effect until amended or replaced” by the Commission.²⁵ Consequently, the TCEQ’s prior approval of Aqua’s applications using the subject depreciation studies and depreciation rates should be respected by the Commission here in advance of Aqua’s next comprehensive rate case. Aqua has received no contrary direction from either regulator concerning “proper and adequate” depreciation. Applicant reasonably viewed the plain language from TCEQ as granting its proposal which was filed in multiple rate cases transparently, subject to discovery, subject to objection from TCEQ staff and protesting ratepayers—and ultimately approved in the applications. At the very least, the practice of one regulatory body not specifically referencing line item issues in rate case settlement orders should not be the complete gating item for administrative deficiencies in SIC requests now.

C. Aqua Must be Allowed a Reasonable Opportunity to Cure

Staff’s Second Recommendation and Order No. 9 unjustly leave no opportunity for Aqua to cure the deficiency identified without Aqua going back in time and persuading Aqua’s prior (or current) regulator to include more specific findings in Aqua’s rate application approval orders. That is not possible. Staff’s recommendation does not even provide an option for Aqua to use any

²⁴ *Id.*

²⁵ 16 TAC § 24.1(b).

other specified set of depreciation rates that Staff would view as acceptable even though that would unfairly force Aqua to spend significant time and resources on the Application several months post-filing. Aqua should be allowed to present evidence here regardless of prior approvals demonstrating that its depreciation studies have produced “proper and adequate” depreciation rates used in the Application.²⁶

In Aqua’s next comprehensive rate case, Aqua will have a newer updated depreciation study to present regardless of depreciation rates used here.²⁷ In the meantime, Aqua’s previously reviewed (and approved) depreciation study rates should be allowed here. Included with this response is an affidavit from John J. Spanos, Aqua’s expert who prepared the depreciation studies with depreciation rates used here, explaining that the depreciation rates used in the Application are “proper and adequate.”²⁸

CONCLUSION

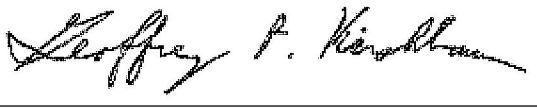
Aqua respectfully requests entry of an order accepting Aqua’s SIC Application as supplemented to be administratively complete and, ultimately, final approval of same. Aqua requests that Order No. 9 either be reversed, withdrawn, or modified in accordance with this response. Aqua also requests any other relief to which it may be entitled.

²⁶ TWC § 13.131(c).

²⁷ See 16 TAC § 24.41(c)(2)(C)(v) (requiring in support of group accounting/depreciation in a comprehensive rate case a depreciation study that is no more than five years old in comparison to the rate case test year).

²⁸ **Exhibit C** – Affidavit of John J. Spanos.

Respectfully submitted,

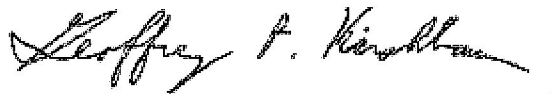
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ATTORNEYS FOR AQUA TEXAS, INC.

CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on July 26, 2022, in accordance with the Orders Suspending Rules filed in Project No. 50664.



Geoffrey P. Kirshbaum

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



EXHIBIT

A

AN ORDER Approving the Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc. to Change Water and Sewer Rates; TCEQ Docket Nos. 2004-1671-UCR and 2004-1120-UCR; SOAH Docket Nos. 582-05-2770 and 582-05-2771.

On March 19, June 18, and August 20, 2008, the Texas Commission on Environmental Quality (Commission) considered the application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., for water and sewer rate/tariff changes and for recovery of rate case expenses through imposition of a surcharge on water and sewer customers. Administrative Law Judges (ALJs) Craig R. Bennett and Travis Vickery of the State Office of Administrative Hearings (SOAH) presented a Proposal for Decision (PFD) recommending that the Commission approve the requested rate changes, with modifications. After considering the PFD, the Commission adopts the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

General and Procedural Findings

1. Aqua Utilities, Inc. (Aqua Utilities), and Aqua Development, Inc. (Aqua Development), hold Water and Sewer Certificates of Convenience and Necessity (CCN) Nos. 11157, 12902, 20453, and 20867.

2. Aqua Utilities and Aqua Development both do business in Texas as Aqua Texas, Inc. (Collectively, Aqua Utilities and Aqua Development are referred to simply as "Aqua Texas").
3. Aqua Texas is wholly owned by Aqua America, Inc. (Aqua America); Aqua America previously went by the name of Philadelphia Suburban Corporation (PSC).
4. PSC acquired 100% of the stock of AquaSource Utility, Inc. and AquaSource Development Company in a transaction approved by the Commission on December 6, 2002, and completed on September 10, 2003.
5. AquaSource Utility, Inc., is now Aqua Utilities and AquaSource Development, Inc., is now Aqua Development.
6. On May 14, 2004, Aqua Texas submitted its Application to Change Water and Sewer Tariffs and Rates in Various Counties (Application) to the Commission, and simultaneously filed the Application with the various municipalities that exercise original jurisdiction over Aqua Texas' water and sewer rates within those municipalities.
7. Aqua Texas' proposed water and sewer rate/tariff changes included increased retail water and sewer rates and changes to miscellaneous non-rate fees and charges.
8. Aqua Texas timely and properly provided notice of the proposed rate changes to its ratepayers and affected persons.
9. On June 25, 2004, the Commission declared the Application administratively complete.
10. Under the Application, the proposed rate increases were effective in non-municipal service areas on July 13, 2004.

11. Within 60 days of the effective date of the proposed rate changes at least ten percent of Aqua Texas' non-municipal customers filed protests to the rate changes. In addition, several municipalities denied Aqua Texas' proposed rate changes.
12. The Commission referred Aqua Texas' Application and its appeals of rate-making actions of various municipalities (collectively, the Appeals) to the State Office of Administrative Hearings (SOAH) for a contested case hearing. Those proceedings were styled and numbered as follows:
 - a. TCEQ Docket No. 2004-1671-UCR/SOAH Docket No. 582-05-2771; Water Rate/Tariff Change Application of Aqua Texas, CCN Nos. 11527 & 12902 in various Counties, Texas; Application No. 34610-R; Sewer Rate/Tariff Change Application of Aqua Texas, CCN Nos. 20453 & 20867 in various Counties, Texas;
 - b. TCEQ Docket No. 2004-1120-UCR/SOAH Docket No. 582-05-2770; Appeal by Aqua Texas from the Ratemaking Actions of the City of Dayton and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34649-A;
 - c. TCEQ Docket No. 2005-0112-UCR/SOAH Docket No. 582-05-4184; Appeal by Aqua Texas from the Ratemaking Actions of the City of Houston and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34825-A;
 - d. TCEQ Docket No. 2005-0113-UCR/SOAH Docket No. 582-05-4181; Appeal by Aqua Texas from the Ratemaking Actions of the City of Woodcreek and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34824-A;
 - e. TCEQ Docket No. 2005-0114-UCR/SOAH Docket No. 582-05-4182; Appeal by Aqua Texas from the Ratemaking Actions of the City of Ingram and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34823-A; and
 - f. TCEQ Docket No. 2005-2122-UCR/SOAH Docket No. 582-05-3745; Appeal by Aqua Texas from the Ratemaking Actions of the Village of Wimberley and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34808-A.
13. Notice of the hearing in this docket was provided to all affected persons.

14. On March 1, 2005, a preliminary hearing convened in this docket, at which time the Application and Appeals set forth above were consolidated for all prehearing and hearing purposes. Further, the following parties were admitted and designated: Aqua Texas; the Executive Director (ED) of the Commission; the Office of Public Interest Counsel (OPIC); the City of Houston; the City of Woodcreek; the Village of Wimberley; the City of Ingram; Lake Palestine Associates LP; Eagles Bluff Community Association; Briarcreek Home Owners Association (HOA); Kendall Pointe HOA; Estates of Shady Hollow HOA; Cherokee Point Owners Association; Eagle Creek Ranch Owners Association; Barton Creek Lakeside Property Owners Association (POA); David Phillips; Lake Cliff POA; Travis Lakeside HOA; Gary Craig; Crighton Group; Southeast Region Homeowners Groups; Southwest Region Homeowners Groups; and numerous individual customers aligned with these groups.
15. On May 20, 2005, the ALJs submitted three certified questions to the Commission in this matter.
16. On September 1, 2005, the Commission entered an Order answering the certified questions as follows:
 - a. Certified Question No. 1: "Does Chapter 13 of the Water Code allow two or more utilities wholly owned by the same parent company to file a single rate filing application to consolidate multiple systems under a single tariff?" Answer: "Yes."
 - b. Certified Question No. 2: "Must a rate filing application initiating a change in rates and proposing to consolidate more than one system under a single tariff contain information showing the systems are substantially similar and the rate promotes water conservation?" Answer: "No."

- c. Certified Question No. 3: "May the rate filing application be rejected and the effective date of the rate be suspended as provided by 30 TEX. ADMIN. CODE §§ 291.8(a) and 291.26(a) if the applicant has failed to include information in its application necessary under TEX. WATER CODE § 13.145 to support a single tariff consolidating more than one system?" Answer: "Set aside" [because of determination of Question No. 2].
17. Prior to the hearing on the merits, Aqua Texas settled with numerous protestants and municipalities. The settling parties were dismissed from this docket and/or Aqua Texas dismissed its appeals of those municipalities' decisions. Those settlements and dismissals included the following:
- a. Aqua Texas settled its appeal of the ratemaking decision of the City of Houston in SOAH Docket No. 582-05-4184 and TCEQ Docket No. 2005-0112-UCR. That appeal was dismissed by the ALJs on January 18, 2006, and by the TCEQ on March 1, 2006.
 - b. Aqua Texas settled its appeal of the ratemaking decision of the Village of Wimberley in SOAH Docket No. 582-05-3745 and TCEQ Docket No. 2004-2122-UCR. That appeal was dismissed by the ALJs on October 31, 2005, and by the TCEQ on March 1, 2006.
 - c. Aqua Texas settled its appeal of the ratemaking decision of the City of Woodcreek in SOAH Docket No. 582-05-4184 and TCEQ Docket No. 2005-0113-UCR. That appeal was dismissed by the ALJs on October 31, 2005, and by the TCEQ on March 1, 2006.
 - d. Aqua Texas reached a settlement with its customers in the Pine Trails residential development in the Southeast Region, and those customers moved to withdraw their protest on February 20, 2006. The ALJs granted that request on March 3, 2006, and the settlement rates and terms were approved by the TCEQ on January 24, 2007.
 - e. Aqua Texas settled its appeal of the ratemaking decision of the City of Ingram in SOAH Docket No. 582-05-3745 and TCEQ Docket No. 2004-2122-UCR. On May 11, 2006, Aqua Texas and Ingram filed a Joint Motion for Approval of Settlement and for Severance of the Ingram Region. On May 24, Mr. Gary Craig, the sole party representing the Ingram environs, advised the Court he had no objection to the proposed settlement. The ALJs then severed the Ingram Region, remanded that portion of this matter to the TCEQ and dismissed the Ingram Appeal on June 7, 2006.

The TCEQ approved the Ingram region settlement and dismissed the Ingram appeal on January 24, 2007.

- f. Aqua Texas reached a settlement with Eagles Bluff Community Association and Lake Palestine Associates, L.P. in the North Region. Those protestants moved to withdraw their protests on May 26, 2006. The ALJs granted that motion on June 7, 2006.
18. On August 14, 2006, the hearing on the merits was convened and preliminary and procedural issues were addressed. At that time, Aqua Texas, the ED, OPIC, the Southeast and Southwest Region Homeowners Groups, Eagle Creek Ranch Owners Association, Barton Creek Lakeside POA, and Briarcreek Owners Association appeared and participated. All non-appearing parties were dismissed for failure to appear; further, the Briarcreek Owners Association was dismissed at its request based upon its settlement with Aqua Texas. After addressing procedural and prehearing matters, the hearing was recessed.
19. The hearing reconvened on August 21, 2006, and continued from day to day thereafter, until it was recessed again on August 28, 2006. Aqua Texas appeared through its attorneys, Paul Terrill, Howard Slobodin, Amanda Cagle, and Mark Zeppa. The ED appeared through staff attorneys Todd Galiga and Ross Henderson. OPIC appeared through staff attorney Scott Humphrey. The Southeast and Southwest Region Homeowners Groups appeared through their attorneys, Sheridan Gilkerson and Ed McCarthy. Eagle Creek Ranch Owners Association appeared through its representative, Linda Lamberth; and the Barton Creek Lakeside POA appeared through its representative, Byron Zinn.
20. The hearing on the merits was reconvened on September 27, 2006, but was recessed so the parties could engage in mediation.

21. The hearing on the merits reconvened on February 16 and 19, 2007, for purposes of taking evidence related to rate case expenses. Aqua Texas appeared through its attorneys, Paul Terrill and Amanda Cagle. The ED appeared through staff attorneys Todd Galiga and Ross Henderson. OPIC appeared through staff attorney Scott Humphrey. The Southeast and Southwest Region Homeowners Groups appeared through their attorneys, Sheridan Gilkerson and Ed McCarthy. The Eagle Creek Ranch Owners Association appeared through its representative, Linda Lamberth.
22. The record closed on May 18, 2007, after the parties submitted written closing arguments and proposed rate-setting data.

Rate Case Data Findings

23. Aqua Texas provides water service to more than 100,000 customers and wastewater service to more than 38,000 customers in Texas, through 335 water and wastewater systems.
24. Aqua Texas has a total of 45,871 active connections among its water and wastewater service for the regions at issue in this proceeding.
25. Aqua Texas acquired the AquaSource companies in the middle of 2003.
26. The AquaSource companies used different utility accounting procedures than Aqua America.
27. If Aqua Texas had attempted to use the AquaSource companies' data for purposes of the test year data for this rate change application, it would have had to spend a significant amount of resources to organize the data in a consistent manner and to go through all of AquaSource's expenses, item by item, and show which expenses would be different going forward under

- ownership by Aqua Texas; this would have been a significant burden and would have likely resulted in unreliable calculations.
28. In submitting its rate change application, it was reasonable for Aqua Texas to use the partial test year data it kept along with budgeted data for 2004 to replace the AquaSource test year data.
 29. Budgeted costs were \$2.3 million less than AquaSource's actual costs during the test year, and revenues increased by \$1.8 million using the budgeted figures.
 30. Aqua Texas' budgeted figures were very accurate; Aqua Texas' actual 2004 expenses were within 0.1% of its test year budgeted figures, indicating that the budgeted figures were a reliable forecast of anticipated expenses.
 31. Aqua Texas utilizes National Association of Regulatory Utility Commissioners (NARUC) utility accounting for its systems.
 32. Aqua Texas reformatted its data and provided it to the ED in a manner that complies with the TCEQ's proprietary system for evaluating utility expenses.
 33. Aqua Texas has not presented its cost of service data by system, but rather by region.
 34. The ED's technical staff has reviewed the actual documentation to support the rate change calculations and found the identified expenses to be well-supported by receipts and other acceptable documentation.
 35. Because the Commission had previously issued an order allowing regional rates to be charged, it was reasonable for Aqua Texas to calculate cost of service on a regional basis, rather than on a system basis, and to present its data in that format.
 36. Aqua Texas' rate case data adequately supports its application to change rates.

Consolidated Tariffs/Regionalization

37. On June 13, 2000, AquaSource Utility, Inc. filed an application for a single statewide tariff with the Texas Natural Resource Conservation Commission.
38. On September 1, 2001, TEX. WATER CODE § 13.145 became effective.
39. On September 17, 2002, the Commission issued an order in the AquaSource Utility, Inc., rate case establishing regions and approving regional tariffs (water and sewer) for each region.
40. Aqua Texas divides its service territory into four regions across the state: North, Southeast, Southwest, and Ingram. Those four operations regions correspond to the four tariff regions proposed in the Application. These are based on the same regions approved in the AquaSource rate case, except that the former Northeast and Northwest Regions have now been combined into the North Region.
41. The regional tariffs in the Application cover each separate region, broken down by water and sewer: North Water; North Sewer; Southeast Water; Southeast Sewer; Southwest Water; and Southwest Sewer.
42. The benefits of regional tariffs include:
 - a. reduced costs resulting from economies of scale;
 - b. lower administration and regulatory costs;
 - c. increased efficiency;
 - d. sharing of expenses between systems resulting in reduced waste;
 - e. prevention of dramatic cost/rate increases when repairs are needed because costs are shared over a larger number of customers; and

- f. revenue and expense stability.
- 43. Regional tariffs help to ensure system viability and compliance with applicable laws because the economies of scale, increased efficiency, and sharing of expenses across larger numbers of customers facilitates capital investment as needed in those systems.
 - 44. The regional water tariffs reflect regional differences in the depth of groundwater, system and regulatory requirements, and physical characteristics such as regional geology.
 - 45. Aqua Texas' water system facilities within each tariff region are substantially similar for reasons including, but not limited to, employees who operate strictly within a region, their sources of water, the components of each system, the types of piping, the design and construction of the systems, facilities, the types of systems, and the types of customer usage that they serve.
 - 46. Aqua Texas' water systems within each tariff region provide substantially similar quality of service, including, but not limited to the following:
 - a. all use state-approved technologies and facilities;
 - b. all provide service, or are being brought into compliance with a level of service, that achieves TCEQ and EPA drinking water standards; and
 - c. all provide water treatment, or are being brought into compliance with a level of service, that achieves TCEQ and EPA drinking water standards.
 - 47. Aqua Texas' water systems' costs of service are substantially similar within each tariff region for reasons including, but not limited to, the following:
 - a. all systems share operations and maintenance costs that are either identical or at least substantially similar on a per customer basis;
 - b. Costs within each region are affected by intra-regional similarities such as regional hydrology and geology and similar intra-regional regulatory requirements; and

- c. all systems' capital components are substantially similar, resulting in substantially similar repair and replacement costs over the life of those components on a per customer basis.
48. Aqua Texas' sewer system facilities within each tariff region are substantially similar for reasons including, but not limited to, the following:
- a. all utilize identical or at least substantially similar methods of treatment;
 - b. all utilize identical or at least substantial similar system components and piping; and,
 - c. all serve substantially similar types of customers.
49. Aqua Texas' sewer systems within each tariff region provide substantially similar quality of service, including, but not limited to the following:
- a. all use state-approved technologies and facilities;
 - b. all provide service, or are being brought into compliance with a level of service, that achieves TCEQ discharge standards; and
 - c. all provide sewage treatment, or are being brought into compliance with a level of treatment, that achieves TCEQ standards.
50. Aqua Texas' sewer systems' costs of service are substantially similar within each tariff region for reasons including, but not limited to the following:
- a. all systems share operations and maintenance costs that are either identical or at least substantially similar on a per customer basis;
 - b. Costs within each region are affected by intra-regional similarities such as regional geology and similar intra-regional regulatory requirements; and,
 - c. all systems' capital components are identical or at least substantially similar, resulting in substantially similar repair and replacement costs over the life of those components on a per customer basis.

51. Aqua Texas' water tariffs promote water conservation because zero gallons are included in the base rate, and they are structured in inclining block tiers with rates that increase for higher usage.

Cost of Service

52. Aqua Texas' proposed rates are based on a twelve month test year ending December 31, 2003, as adjusted for known and measurable changes based upon its budgeted expenses for 2004.
53. Aqua Texas had reasonable and necessary expenses, as reflected by the test year data and as adjusted for known and measurable changes, for each tariff region as set forth on attached **Exhibits B-1 through B-6** (the Revenue Requirement Rate Sheets).
54. The expenses set forth in **Exhibits B-1 through B-6** are reasonable and necessary to provide service to Aqua Texas' ratepayers.
- a. The expenses are based on Aqua Texas' test year expenses as adjusted for known and measurable changes.
 - b. The expenses are related to, and necessary for, the provision of water and sewer service.
 - c. The amount of the costs and expenses is reasonable.

Rate Base

55. In its application, Aqua Texas proposed a four-year phased-in rate increase as part of a seven year expense deferral/recovery plan.

56. Aqua Texas sought and received authorization from the ED to account for certain expenses consistent with Statement of Financial Accounting Standards No. 71 ("FAS No. 71"), entitled "Accounting for the Effects of Certain Types of Regulation," in regard to amounts it undercollected in the early years of its four year phase-in period, *i.e.* when the rates it charged were below rates based on a cost of service basis.
57. After obtaining approval from the ED, Aqua Texas implemented its phased rate increase and capitalized certain expenses as a regulatory asset in association with its phased-in rate increases.
58. Aqua Texas deferred expenses consistent with SFAS No 71, creating a commensurate regulatory asset.
59. The total amount of deferred expenses eligible for recovery beginning January 1, 2009, is \$10,946,000.
60. Aqua Texas included an average \$8,000,000 balance of its expense deferrals in rate base in its Application and assigned the overall rate of return of 8.44% to it.
61. Using phased-in rates and creating a regulatory asset creates the possibility for Aqua Texas to have an over-recovery.
62. By including a regulatory asset in rate base and phasing in its rates to recover the deferred expenses associated with the regulatory asset, Aqua Texas' proposed final phased rates are higher than what they would have been if simple, unphased rates were used. These higher rates are implemented after year two of the phase-in and continue indefinitely into the future.
63. It is not reasonable, nor necessary for Aqua Texas to include a deferred expense regulatory asset in rate base.

64. It is reasonable and necessary for Aqua Texas to recover \$10,946,000 in deferred expenses through a surcharge.
65. Aqua Texas' net adjusted test year rate base consists of the following elements: utility plant at original cost, less accumulated depreciation, less contributions in aid of construction, plus cash working capital.
66. Aqua Texas' total net adjusted test year rate base broken down by regional tariff is as follows:
 - a. \$31,831,135 for North Region (Water)
 - b. \$24,013,695 for Southeast Region (Water)
 - c. \$22,798,957 for Southwest Region (Water)
 - d. \$1,883,757 for North Region (Wastewater)
 - e. \$19,580,236 for Southeast Region (Wastewater)
 - f. \$5,828,224 for Southwest Region (Wastewater)
67. The total net adjusted test year rate base figures set forth above do not include amounts for deferred expense regulatory assets.

Acquisition Adjustment

68. The Commission's order in the prior AquaSource rate case provided that an approximately \$7.4 million Acquisition Adjustment be addressed in a subsequent rate proceeding.
69. Due to the magnitude of the rate increase in this proceeding, Aqua Texas has proposed to exclude the Acquisition Adjustment from rates in this case, but requests that this amount be held in abeyance until Aqua Texas exercises its right to pursue recovery in a later rate case.

70. The Acquisition Adjustment was not addressed in this proceeding, and it is reasonable to allow Aqua Texas to carry forward the \$7.4 million Acquisition Adjustment from the previous rate case to the next rate case because doing so avoids two harms: rate shock to the customers and damage to the financial health of Aqua Texas.

Rate of Return

71. Aqua Texas has no debt, but its parent company, Aqua America, does. Aqua Texas benefits from Aqua America's debt financing.
72. It is reasonable to impute a 50/50 debt-equity structure to Aqua Texas based on Aqua America's debt financing.
73. A 12% return on equity is reasonable in light of Aqua Texas' risk and the capital-intensive nature of water and sewer utilities and is consistent with the returns available from other investments of similar risk.
74. Aqua Texas' imputed 4.87% cost of debt is based on Aqua America's cost of debt and is significantly lower than the cost of debt that a small utility could obtain. It also represents the lowest interest rate paid by Aqua America for its debt.
75. Aqua Texas' requested total rate of return of 8.44% based on an imputed 50/50 debt-equity structure and a 12% return on equity and a 4.87% cost of debt is reasonable in light of the risk inherent in the operation of water and sewer utilities and is consistent with the returns available from other investments of similar risk.
76. Aqua Texas' requested total rate of return of 8.44% is also reasonable in light of Aqua Texas' management.

Rate Case Expenses

77. As of June 18, 2008, Aqua Texas incurred reasonable and necessary rate case expenses in this matter in the amount of \$2,751,170.50 for preparation of the Application, including deriving the original plant and equipment costs, developing the proposed rate/tariff changes, filing fees, notice costs, and participation by experts and counsel in the contested case hearing.
78. Rate case expenses in this case were not a normal, recurring expense of operation.
79. It is reasonable and appropriate for Aqua Texas to recover its reasonable rate case expenses as a monthly surcharge.

CONCLUSIONS OF LAW

General and Procedural Conclusions

1. Aqua Texas is a public utility as defined in TEX. WATER CODE ANN. §13.002(23).
2. The Commission has jurisdiction to consider Aqua Texas' Application for a rate increase pursuant to TEX. WATER CODE §§ 13.181, 13.042, and 13.043.
3. The ALJs conducted a contested case hearing and issued a proposal for decision on Aqua Texas' proposed water and sewer rate/tariff changes under TEX. GOV'T CODE ch. 2003, TEX. WATER CODE ch. 13, and 30 TEX. ADMIN. CODE chs. 80 and 291.
4. Proper notice of the Application was given by Aqua Texas as required by TEX. WATER CODE §§ 13.187 and 13.043; 30 TEX. ADMIN. CODE §§ 291.22 and 291.28; and TEX. GOV'T CODE §§ 2001.051 and 2001.052.

Rate Case Data

5. The application, rate-filing information, and rate case data submitted by Aqua Texas in this case is adequate to support its rate change application and complies with the applicable statutes and rules.

Aqua Texas' Standing

6. TEX. WATER CODE § 13.302 establishes the application requirements for the purchase of stock in a public utility.
7. TEX. WATER CODE § 13.301 establishes the requirements for a sale, transfer, or merger (STM) of a utility.
8. For both STM and stock acquisition applications, the Commission may require that the applicant "demonstrate adequate financial, managerial, and technical capability for providing continuous and adequate service to the requested area and any areas currently certificated to the person." TEX. WATER CODE §§ 13.301(b) and 13.302(b).
9. For both STM and stock acquisition applications, the Commission must determine whether the proposed transaction would serve the public interest and provide for a public hearing if it is necessary to make this determination. TEX. WATER CODE §§ 13.301(d)-(e) and 13.302(d) and (f).
10. A stock acquisition is not a "sale, acquisition, lease, or rental," or a "merger or consolidation," and, therefore, does not necessitate a STM application under TEX. WATER CODE § 13.301(a).

11. Because an application was filed under TEX. WATER CODE § 13.302 prior to the 2003 stock acquisition of the AquaSource companies by PSC, and the ED approved the transaction, no STM application was required under TEX. WATER CODE § 13.301.
12. Aqua Texas has standing to bring the application for rate changes at issue in this proceeding.

Consolidated Tariffs/Regionalization

13. Chapter 13 of the Water Code expresses a strong legislative preference for regionalization in the form of a mandate to the Commission to develop policies promoting the consolidation of systems under regional tariffs. TEX. WATER CODE §§ 13.182(d), 13.183(c), and 13.241(d).
14. Because Aqua Texas has applied for regional water and sewer tariffs, TEX. WATER CODE § 13.145 applies to Aqua Texas' Application.
15. The systems in each of Aqua Texas' seven regional tariffs are substantially similar in terms of facilities, quality of service, and cost of service within the meaning of TEX. WATER CODE § 13.145.
16. Aqua Texas' regional tariffs promote water conservation for single-family residences and landscape irrigation within the meaning of TEX. WATER CODE § 13.145.
17. Aqua Texas has satisfied the requirements of TEX. WATER CODE § 13.145.

Revenue Requirements

18. The invested capital amounts used to calculate cost of service and rates are based on the original cost of property used by and useful to Aqua Texas in providing service, less depreciation, in accordance with TEX. WATER CODE ANN. § 13.185.

19. The revenue requirements presented in the Application, after being adjusted for the modifications required by the above Findings of Fact and as ultimately shown in the attached **Exhibits B-1 through B-6**, are based on Aqua Texas' reasonable and necessary operating expenses, within the meaning of TEX. WATER CODE ANN. §§ 13.183 and 13.185.
20. The revenue requirements presented in the Application, as adjusted by the Commission in this proceeding and reflected in the attached **Exhibits B-1 through B-6**, are sufficient to provide Aqua Texas with a reasonable opportunity to earn a fair and equitable return on its invested capital while preserving its financial integrity, within the meaning of TEX. WATER CODE ANN. §§ 13.183 and 13.184.
21. The rates and gallonage charges in the attached **Exhibit A** set forth the appropriate rates and gallonage charges to collect the revenue requirements approved by this Order. The rates and fees to be charged by Aqua Texas, as approved by the Commission in this Order, are just; reasonable; not unreasonably preferential, prejudicial, or discriminatory; sufficient; equitable; and consistent in application to each class of customer in accordance with TEX. WATER CODE ANN. §§ 13.182, 13.189, and 13.190.

Termination of Purchased Water Pass-Through

22. With the approval of the application and the adoption of rates in this case, it is no longer appropriate for Aqua Texas to recover any purchased water expenses through a monthly pass-through amount (previously recovered in the amount of \$1.00 per customer, per month), except upon later Commission approval.

Deferred Expenses Regulatory Asset

23. Aqua Texas may recover its deferred expenses through a monthly surcharge in the amount of \$9.94 per connection for 24 months.

Rate Case Expenses

24. Rate case expenses in the amount of \$2,751,170.50 through June 18, 2008, were reasonable and necessary expenses within the meaning of TEX. WATER CODE §§ 13.043, 13.084, 13.183(a)(1) & 13.185(d) and (h), and 30 TEX. ADMIN. CODE § 291.31(b).
25. Aqua Texas may recover its rate case expenses through a monthly surcharge of \$2.50 per connection for 24 months. Recovery of rate case expenses through such a surcharge complies with 30 TEX. ADMIN. CODE § 291.21(k) for collection of revenues over and above the usual cost of service.
26. Rate case expenses are allocated among all of Aqua Texas' systems governed by this proceeding equally on a per-connection basis.

EXPLANATION OF CHANGES

1. The Commission adopted the ALJs' revised proposed Order submitted to the Commission on July 17, 2008, but also adopted the changes proposed in the ALJs' letter to the Commission dated August 8, 2008. The Commission modified Finding of Fact No. 77, Conclusion of Law No. 24 and Ordering Provision No. 2 to identify total rate case expenses of \$2,751,170.50. The Commission modified Conclusion of Law No. 25 and Ordering Provision No. 2 to modify the surcharge amount to \$2.50 based on the slightly higher total

rate case expense amount. The Commission modified Conclusion of Law No. 21 in order to reference attached **Exhibit A**, which summarizes the appropriate base rates and gallonage charges by region in a chart format.

2. The Commission determined to incorporate the revised **Exhibit A** proposed by the Applicant and orally recommended by the ALJs at the August 20, 2008 agenda meeting;
3. The Commission modified Ordering Provision Number 2 to include the following sentence:
“The surcharge for the rate case expenses shall be discontinued at the end of 24 months or once the total amount of rate case expenses (\$2,751,170.50) is recovered, whichever occurs first.”

NOW, THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY THAT:

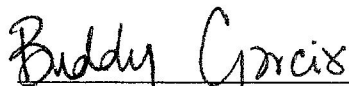
1. The Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., for water and sewer rate/tariff change are granted as modified by and to the extent set forth in the above Findings of Fact and Conclusions of Law.
2. The request of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., to apply a surcharge to recover rate case expenses in the amount of \$2,751,170.50, to be recovered as a monthly surcharge in the amount of \$2.50 to each water and sewer connection for 24 months is approved. The surcharge for the rate case expenses shall be discontinued at the end of 24 months or once the total amount of rate case expenses (\$2,751,170.50) is recovered, whichever occurs first.

3. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas are given approval to apply a surcharge to recover its deferred expenses in the amount of \$10,946,000 that was not allowed in rate base. This shall be recovered as a monthly surcharge in the amount of \$9.94 to each water and sewer connection for 24 months. The surcharge shall be discontinued at the end of 24 months or once the amount of \$10,946,000 is recovered, whichever occurs first.
4. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas are to discontinue the collection of any pass-through charges from customers for the recovery of purchased water expenses. No additional purchased water pass-through charges are permitted for the systems covered by this order, except through later Commission approval.
5. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas shall file a tariff reflecting the rates approved by the Commission within ten days of the date of this Order.
6. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas shall notify customers by mail of the final rate structure within 30 days of the date of this Order and shall include the statement required by 30 TEX. ADMIN. CODE § 291.28(5) along with the first bill to customers implementing the rates approved by this Order.
7. The effective date of this Order is the date the Order is final, as provided by TEX. GOV'T CODE ANN. §2001.144 and 30 TEX. ADMIN. CODE § 80.273. However, the rates and surcharges set by this order shall not go into effect until January 1, 2009.
8. All other motions, requests for entry of specific Findings of Fact or Conclusions of Law, and any other requests for general or specific relief not expressly granted herein, are hereby denied for want of merit.

9. The Chief Clerk of the Texas Commission on Environmental Quality shall forward a copy of this Order and tariff to the parties.
10. If any provision, sentence, clause, or phase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date: SEP 23 2008

TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY


Buddy Garcia, Chairman

08/14/2008 04:49 PM

FAX No. 512 474 9888

AUG/14/2008/THU 04:49 PM The Terrill Firm

P. 005/006

EXHIBIT

A

08/14/2008

REGION / SERVICE	REVENUE REQUIREMENT	CHARGE PER 1000 GAL.	MINIMUM MONTHLY BILL - METER SIZE							
			5/8", 3/4"	1"	1 1/2"	2"	3"	4"	6"	8"
North - Water	\$ 10,298,751	\$ 3.27	\$ 36.89	\$ 92.23	\$ 184.47	\$ 295.15	\$ 553.40	\$ 922.33	\$ 1,844.66	\$ 2,951.46
North - Wastewater	\$ 648,271		\$ 73.30	\$ 183.25	\$ 368.50	\$ 586.41	\$ 1,172.81	\$ 1,832.52	\$ 3,665.03	\$ 5,864.05
SE - Water	\$ 8,861,499	\$ 2.95	\$ 20.84	\$ 52.11	\$ 104.22	\$ 166.76	\$ 312.67	\$ 521.12	\$ 1,042.24	\$ 1,667.58
SE - Wastewater	\$ 6,254,310		\$ 63.80	\$ 159.49	\$ 318.99	\$ 510.38	\$ 1,020.76	\$ 1,594.93	\$ 3,189.87	\$ 5,103.79
SW - Water	\$ 8,444,283	\$ 3.61	\$ 38.94	\$ 97.35	\$ 194.70	\$ 311.52	\$ 584.11	\$ 973.51	\$ 1,947.02	\$ 3,115.23
SW - Wastewater	\$ 1,966,100		\$ 87.97	\$ 219.92	\$ 439.84	\$ 703.75	\$ 1,407.50	\$ 2,199.22	\$ 4,398.43	\$ 7,037.49

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET #

34610-R

UTILITY:

Aqua Texas, inc. (North Water)

based on ED-KA-23-North (Water)

REVENUE REQUIREMENT

COST OF SERVICE ITEM

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,461,349	50	\$730,675	50	\$730,675
CONTRACT SERVICES	607,711	90	546,940	10	60,771
PURCHASED SERVICE	251,863	0	0	100	251,863
CHEMICALS AND TREATMENT	121,365	0	0	100	121,365
UTILITIES	828,722	0	0	100	828,722
REPAIRS AND MAINTENANCE	242,371	50	121,186	50	121,186
OFFICE EXPENSE	242,380	50	121,190	50	121,190
ACCOUNTING & LEGAL	96,845	100	96,845	0	0
INSURANCE	30,801	100	30,801	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	837,534	50	418,767	50	418,767
DEPRECIATION & AMORTIZATION	1,439,811	100	1,439,811	0	0
TAXES OTHER THAN INCOME	280,224	100	280,224	0	0

SUB-TOTAL (LESS FIT & RETURN)	6,440,976		\$3,786,436		\$2,654,538
% OF TOTAL (FIXED + VARIABLE)		0.59		0.41	
FEDERAL INCOME TAXES	1,383,979		813,596		570,383
RETURN	2,686,548		1,579,333		1,107,215
LESS OTHER REVENUES	-212,751		-125,059		-87,682
TOTAL	\$10,298,752		\$6,054,298		\$4,244,455

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$3.41 /TH.GAL.

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MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$35.88 /MO.

\$35.88 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$3.27 /TH.GAL.
YIELDS	\$36.89 /MO.
	36.89 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED: \$10,298,752	

REVENUE GENERATED SUMMARY:

		Minimum Bill			
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	13616	36.89	\$36.89	\$502,337	\$6,028,043
1"	124	92.23	92.23	11,437	137,242
1-1/2"	5	184.47	184.47	922	11,068
2"	10	295.15	295.15	2,951	35,417
3"	2	553.40	553.40	1,107	13,282
4"		922.33	922.33	0	0
6"		1844.66	1844.66	0	0
8"		2951.45	2951.45	0	0

0

TOTAL MINIMUM CHARGES=>

\$6,225,052

GALLONAGE CHARGES=>

1,245,780

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\$3.27 /1,000 GAL

4,073,701

TOTAL REVENUE GENERATED=>

\$10,298,752



based on Exhibit: ED-KA-24-SE (Water)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,220,685	50	\$610,343	50	\$610,343
CONTRACT SERVICES	537,787	90	484,008	10	53,779
PURCHASED SERVICE	131,276	0	0	100	131,276
CHEMICALS AND TREATMENT	138,312	0	0	100	138,312
UTILITIES	533,070	0	0	100	533,070
REPAIRS AND MAINTENANCE	189,272	50	94,636	50	94,636
OFFICE EXPENSE	180,248	50	90,124	50	90,124
ACCOUNTING & LEGAL	96,619	100	96,619	0	0
INSURANCE	33,167	100	33,167	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	716,548	50	358,274	50	358,274
DEPRECIATION & AMORTIZATION	1,153,116	100	1,153,116	0	0
TAXES OTHER THAN INCOME	1,094,707	100	1,094,707	0	0
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SUB-TOTAL (LESS FIT & RETURN)	6,024,807		\$4,014,994		\$2,009,813
% OF TOTAL (FIXED + VARIABLE)		0.67		0.33	
FEDERAL INCOME TAXES	1,044,086		695,790		348,296
RETURN	2,026,756		1,350,651		676,105
LESS OTHER REVENUES	-234,174		-156,056		-78,118
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TOTAL	\$8,861,475		\$5,905,379		\$2,956,096

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$1.75 /TH.GAL.

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W

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$31.62 /MO.

\$31.62 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE =>	\$2.95 /TH.GAL.
 W	
YIELDS	\$20.84 /MO.
	20.84 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$8,861,475

REVENUE GENERATED SUMMARY:

Minimum Bill					
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	13038	20.84	\$20.84	\$271,774	\$3,261,289
1"	419	52.11	52.11	21,835	262,019
1-1/2"	42	104.22	104.22	4,377	52,529
2"	72	166.76	166.76	12,007	144,079
3"	14	312.67	312.67	4,377	52,529
4"	6	521.12	521.12	3,127	37,521
6"	5	1042.24	1042.24	5,211	62,534
8"	1	1667.58	1667.58	1,668	20,011

TOTAL MINIMUM CHARGES=>

\$3,892,510

GALLONAGE CHARGES=>

1,684,395

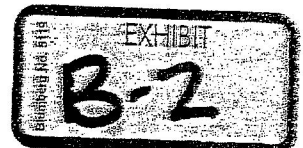
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\$2.95 /1,000 GAL

4,968,965

TOTAL REVENUE GENERATED=>

\$8,861,475



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET #

34610-R

UTILITY:

Aqua Texas, Inc. (SW Water)

REVENUE REQUIREMENT

based on Exhibit: ED-KA-25-SW (Water)

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,377,130	50	\$688,565	50	\$688,565
CONTRACT SERVICES	589,831	90	530,848	10	58,983
PURCHASED SERVICE	326,676	0	0	100	326,676
CHEMICALS AND TREATMENT	63,065	0	0	100	63,065
UTILITIES	423,436	0	0	100	423,436
REPAIRS AND MAINTENANCE	200,583	50	100,292	50	100,292
OFFICE EXPENSE	-31,066	50	-15,533	50	-15,533
ACCOUNTING & LEGAL	138,037	100	138,037	0	0
INSURANCE	215,684	100	215,684	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	991,911	50	495,956	50	495,956
DEPRECIATION & AMORTIZATION	975,053	100	975,053	0	0
TAXES OTHER THAN INCOME	397,249	100	397,249	0	0
SUB-TOTAL (LESS FIT & RETURN)	5,667,589		\$3,526,150		\$2,141,439
% OF TOTAL (FIXED + VARIABLE)		0.62		0.38	
FEDERAL INCOME TAXES	991,271		616,730		374,541
RETURN	1,924,232		1,197,181		727,051
LESS OTHER REVENUES	-138,707		-86,298		-52,409
TOTAL	\$8,444,385		\$5,253,762		\$3,190,622

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$2.97 /TH.GAL.

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W

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MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$44.76 /MO.

\$44.76 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$3.61 /TH.GAL.
	W
YIELDS	\$38.94 /MO.
	38.94 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$8,444,385

REVENUE GENERATED SUMMARY:

Minimum Bill

Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	8891	38.94	\$38.94	\$346,219	\$4,154,628
1"	163	97.35	97.35	15,868	190,418
1-1/2"	12	194.70	194.70	2,336	28,037
2"	19	311.52	311.52	5,919	71,027
3"	6	584.11	584.11	3,505	42,056
4"	2	973.51	973.51	1,947	23,364
6"	1	1947.02	1947.02	1,947	23,364
8"	1	3115.23	3115.23	3,115	37,383

0

TOTAL MINIMUM CHARGES=>

\$4,570,277

GALLONAGE CHARGES=>

1,073,160

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\$3.61 /1,000 GAL

3,874,108

TOTAL REVENUE GENERATED=>

\$8,444,385



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R

UTILITY:

Aqua Texas, Inc. (North Sewer)

based on Exhibit: ED-KA-26-North (Sewer)

REVENUE REQUIREMENT

COST OF SERVICE ITEM

	Item Cost	%	Fixed	%	Variable
SALARIES	\$87,511	50	\$43,756	50	\$43,756
CONTRACT SERVICES	28,102	90	25,292	10	2,810
PURCHASED SERVICE	35,064	0	0	100	35,064
CHEMICALS AND TREATMENT	11,546	0	0	100	11,546
UTILITIES	71,527	50	35,763	50	35,763
REPAIRS AND MAINTENANCE	8,031	50	4,015	50	4,015
OFFICE EXPENSE	0	0	0	100	0
ACCOUNTING & LEGAL	4,284	100	4,284	0	0
INSURANCE	2,462	100	2,462	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	54,082	50	27,041	50	27,041
DEPRECIATION & AMORTIZATION	103,626	100	103,626	0	0
TAXES OTHER THAN INCOME	11,390	100	11,390	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	417,624		\$257,629		\$159,995
% OF TOTAL (FIXED + VARIABLE)		0.62		0.38	
FEDERAL INCOME TAXES	74,190		45,767		28,423
RETURN	158,989		98,079		60,910
LESS OTHER REVENUES	-2,532		-1,562		-970
TOTAL	\$648,270		\$399,913		\$248,357

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$7.02 /TH.GAL.

ψ

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$45.22 /MO.

\$45.22 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$0.00 } Should be 0 for Flat Rate
ψ	
YIELDS	\$73.30 /MO.
	73.30 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED: \$648,270	

REVENUE GENERATED SUMMARY:

		Minimum Bill			
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	711	73.30	\$73.30	\$52,117	\$625,400
1"	4	183.25	183.25	733	8,796
1-1/2"		366.50	366.50	0	0
2"		586.40	586.40	0	0
3"	1	1172.81	1172.81	1,173	14,074
4"		1832.51	1832.51	0	0
6"		3665.03	3665.03	0	0
8"		5864.04	5864.04	0	0
TOTAL MINIMUM CHARGES=>					\$648,270
GALLONAGE CHARGES=>		0	@	\$0.00 /1,000 GAL	0
TOTAL REVENUE GENERATED=>					\$648,270



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R UTILITY: Aqua Texas, Inc. (SE Sewer)

based on Exhibit: ED-KA-27-SE (Sewer)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$471,011	50	\$235,506	50	\$235,506
CONTRACT SERVICES	500,717	90	450,645	10	50,072
PURCHASED SERVICE	611,064	0		100	611,064
CHEMICALS AND TREATMENT	41,639	0	0	100	41,639
UTILITIES	521,412	0	0	100	521,412
REPAIRS AND MAINTENANCE	30,031	50	15,016	50	15,016
OFFICE EXPENSE	0	100	0	0	0
ACCOUNTING & LEGAL	39,667	100	39,667	0	0
INSURANCE	22,520	100	22,520	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	366,288	50	184,144	50	184,144
DEPRECIATION & AMORTIZATION	1,045,227	100	1,045,227	0	0
TAXES OTHER THAN INCOME	123,263	100	123,263	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	3,774,859		\$2,116,008		\$1,658,852
% OF TOTAL (FIXED + VARIABLE)		0.56		0.44	
FEDERAL INCOME TAXES	861,325		477,213		374,112
RETURN	1,652,572		926,354		726,218
LESS OTHER REVENUES	-24,446		-13,704		-10,743
TOTAL	\$6,254,310		\$3,505,870		\$2,748,440

RATE CALCULATION

Calculating a flat rate? ☒ y

GALLONAGE CHARGE
Variable Cost/Test Year Gallons/1,000 =====> \$4.94 /TH.GAL.

MINIMUM BILL
Fixed Cost/12/Connection Equivalents =====> \$35.76 /MO.
\$35.76 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$0.00 <-- Should be 0 for Flat Rate
YIELDS	\$63.80 /MO. 63.80 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED: \$6,254,310	

REVENUE GENERATED SUMMARY:

Minimum Bill					
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	6603	63.80	\$63.80	\$421,254	\$5,055,047
1"	225	159.49	159.49	35,886	430,632
1-1/2"	35	318.99	318.99	11,165	133,974
2"	88	510.38	510.38	44,913	538,960
3"	0	1020.76	1020.76	0	0
4"	5	1594.93	1594.93	7,975	95,696
6"		3189.87	3189.87	0	0
8"		5103.79	5103.79	0	0

TOTAL MINIMUM CHARGES=> \$6,254,310

GALLONAGE CHARGES=> 0 @ \$0.00 /1,000 GAL 0

TOTAL REVENUE GENERATED=> \$6,254,310



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R UTILITY: Aqua Texas, Inc. (SW Sewer)

based on Exhibit ED-KA-2B-SW (Sewer)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$190,482	80	\$152,385	20	\$38,096
CONTRACT SERVICES	132,351	80	105,881	20	26,470
PURCHASED SERVICE	132,209	0	0	100	132,209
CHEMICALS AND TREATMENT	39,759	0	0	100	39,759
UTILITIES	127,036	0	0	100	127,036
REPAIRS AND MAINTENANCE	20,036	50	10,018	50	10,018
OFFICE EXPENSE	0	100	0	0	0
ACCOUNTING & LEGAL	26,853	100	26,853	0	0
INSURANCE	43,323	100	43,323	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	202,994	100	202,994	0	0
DEPRECIATION & AMORTIZATION	272,529	100	272,529	0	0
TAXES OTHER THAN INCOME	39,408	100	39,408	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	1,226,978		\$853,390		\$373,588
% OF TOTAL (FIXED + VARIABLE)		0.70		0.30	
FEDERAL INCOME TAXES	253,404		176,248		77,156
RETURN	491,902		342,129		149,773
LESS OTHER REVENUES	-6,182		-4,300		-1,882
TOTAL	\$1,966,102		\$1,367,467		\$598,635

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$8.36 /TH.GAL.

W

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$61.18 /MO.

\$61.18 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$0.00 /TH.GAL.
	W
YIELDS -	\$87.97 /MO.
	87.97 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED: \$1,966,102	

REVENUE GENERATED SUMMARY:

Minimum Bill					
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	1722	87.97	\$87.97	\$151,482	\$1,817,787
1"	15	219.92	219.92	3,299	39,586
1-1/2"	6	439.84	439.84	2,639	31,669
2"	6	703.75	703.75	4,223	50,670
3"	0	1407.50	1407.50	0	0
4"	1	2199.22	2199.22	2,199	26,391
6"		4398.44	4398.44	0	0
8"		7037.50	7037.50	0	0

0

TOTAL MINIMUM CHARGES=>

\$1,966,102

GALLONAGE CHARGES=>

71,648

@

\$0.00 /1,000 GAL

0

TOTAL REVENUE GENERATED=>

\$1,966,102



PUC DOCKET NO. 53428

APPLICATION OF AQUA TEXAS,	§	BEFORE THE PUBLIC UTILITY
INC. FOR SYSTEM IMPROVEMENT	§	
CHARGES PURSUANT TO 16 TAC	§	COMMISSION OF TEXAS
§ 24.76	§	

EXHIBIT B
DEPRECIATION SUPPORT FROM PREVIOUS RATE CASES

SOAH Docket No. 582-12-6658; TCEQ Docket No. 2012-1058-UCR - Application No. 37235-R, Aqua Texas Southwest Region and Application No. 37234-R, Aqua Texas North Region

1. Attachment 5 to Rate/Tariff Change Application – Depreciation Summary
2. Second Amended Response to TCEQ Executive Director’s Requests for Information
3. Aqua Texas’ Response to TCEQ Executive Director’s First Interrogatories, Requests for Production and Requests for Admissions

SOAH Docket No. 582-14-1051; TCEQ Docket No. 2013-2007-UCR - Application Nos. 37696-R and 37697-R, Aqua Texas Southeast Region in Chambers, Liberty, and Jefferson Counties

1. Aqua Texas’ Response to Executive Director’s First Set of Discovery Requests to Aqua Texas
2. Aqua Texas’ Responses to OPUC’s First Request for Production of Documents
3. Aqua Texas’ Prefiled Testimony and Exhibits of John J. Spanos

AQUA TEXAS, INC.

WATER ASSETS

ESTIMATED SURVIVOR CURVE, NET SALVAGE, ORIGINAL COST, BOOK RESERVE, AND
CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DECEMBER 31, 2010

DEPRECIABLE GROUP		SURVIVOR CURVE	NET SALVAGE	ORIGINAL COST AS OF DECEMBER 31, 2010	BOOK RESERVE	FUTURE ACCRUALS	ANNUAL ACCRUAL AMOUNT	COMPOSITE REMAINING LIFE	ANNUAL ACCRUAL RATE PERCENT
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(7)/(4)
DEPRECIABLE PLANT									
STRUCTURES AND IMPROVEMENTS									
304.20	SOURCE OF SUPPLY AND PUMPING	45-R3	(5)	3,591,092.02	959,065	2,811,582	72,224	38.9	2.01
304.30	WATER TREATMENT	55-R3	(5)	5,136,394.86	1,979,920	3,413,295	74,202	46.0	1.44
304.40	TRANSMISSION AND DISTRIBUTION	40-R2.5	(5)	2,090,208.13	410,184	1,784,535	51,903	34.4	2.48
304.50	GENERAL	45-R3	0	3,197,518.54	650,916	2,546,603	66,597	38.2	2.08
TOTAL STRUCTURES AND IMPROVEMENTS				14,015,213.55	4,000,085	10,556,015	264,926	39.8	1.89
COLLECTING AND IMPOUNDING RESERVOIRS									
305.00	LAKE, RIVER AND OTHER INTAKES	60-R2.5	0	6,982.99	817	6,166	114	54.1	1.63
306.00	WELLS AND SPRINGS	60-S1.5	0	32,946.32	4,108	28,838	522	55.2	1.58
307.00	SUPPLY MAINS	50-R3	(5)	33,721,767.87	10,392,615	25,015,241	608,365	41.1	1.80
309.00	POWER GENERATION EQUIPMENT	60-S2.5	(10)	2,340,694.42	440,315	2,134,449	39,762	53.7	1.70
310.20		30-S2.5	0	1,397,288.25	228,755	1,168,533	45,864	25.5	3.28
PUMPING EQUIPMENT									
311.20	SOURCE OF SUPPLY AND PUMPING	36-R0.5	(5)	11,766,290.01	5,333,864	7,020,741	214,674	32.7	1.82
311.30	WATER TREATMENT	35-R2.5	(5)	321,954.91	95,343	242,710	8,481	28.6	2.63
311.40	TRANSMISSION AND DISTRIBUTION	35-R2	(5)	5,904,478.18	2,792,591	3,407,111	115,108	29.6	1.95
TOTAL PUMPING EQUIPMENT				17,992,723.10	8,221,798	10,670,562	338,263	31.5	1.88
WATER TREATMENT EQUIPMENT									
320.00	DISTRIBUTION RESERVOIRS AND STANDPIPES	45-R2.5	(10)	3,053,199.14	1,000,911	2,357,608	61,467	38.4	2.01
330.00	TRANSMISSION AND DISTRIBUTION MAINS	50-S1	(10)	24,372,987.25	6,766,639	20,043,647	515,426	38.9	2.11
331.00	SERVICES	75-R4	(15)	65,666,383.93	20,752,080	54,764,262	921,731	59.4	1.40
333.00	METERS AND METER INSTALLATIONS	27-S1.5	(25)	7,307,917.94	253,943	8,880,954	429,642	20.7	5.88
334.00	FIRE HYDRANTS	30-S1	0	15,493,732.37	7,489,337	8,004,395	335,943	23.8	2.17
335.00		70-R3	(10)	1,246,583.87	443,788	927,454	16,869	55.0	1.35
OTHER PLANT AND MISCELLANEOUS EQUIPMENT									
339.10	INTANGIBLE	20-R4	0	2,669.27	2,669	0	0	-	- *
339.20	SOURCE OF SUPPLY AND PUMPING	30-R3	0	222,231.67	125,644	96,588	4,060	23.8	1.83
339.30	WATER TREATMENT	30-S2.5	0	241,617.03	159,310	82,307	3,495	23.5	1.45
339.40	TRANSMISSION AND DISTRIBUTION	35-R3	0	216,733.28	128,562	88,171	3,138	28.1	1.45
TOTAL OTHER PLANT AND MISCELLANEOUS EQUIPMENT				683,251.25	416,185	267,066	10,693	25.0	1.57
OFFICE FURNITURE AND EQUIPMENT									
340.00	TRANSPORTATION EQUIPMENT	20-SQ	0	6,029,849.28	584,567	5,445,282	336,296	16.2	5.58
341.00	TOOLS, SHOP AND GARAGE EQUIPMENT	10-S0	5	1,435,284.89	9,016	1,354,505	221,781	6.1	15.45
343.00	LABORATORY EQUIPMENT	20-SQ	0	166,431.36	15,219	151,212	11,705	12.9	7.03
344.00	POWER OPERATED EQUIPMENT	15-SQ	0	1,362.70	140	1,223	116	10.5	8.51
345.00	COMMUNICATION EQUIPMENT	20-L3	0	201,413.33	29,933	171,480	12,015	14.3	5.97
346.00	MISCELLANEOUS EQUIPMENT	15-SQ	0	251,897.84	48,670	203,228	22,530	9.0	8.94
347.00	OTHER TANGIBLE PLANT	15-SQ	0	267,125.96	22,239	244,887	21,397	11.4	8.01
348.00		20-SQ	0	1,502,982.94	490,095	1,012,888	119,481	8.5	7.95
TOTAL DEPRECIABLE PLANT				197,188,020.55	61,611,255	153,409,895	4,334,908	35.4	2.20

AQUA TEXAS, INC.

WATER ASSETS

ESTIMATED SURVIVOR CURVE, NET SALVAGE, ORIGINAL COST, BOOK RESERVE, AND
CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DECEMBER 31, 2010

DEPRECIABLE GROUP	SURVIVOR CURVE	NET SALVAGE	ORIGINAL COST AS OF DECEMBER 31, 2010	BOOK RESERVE	FUTURE ACCRUALS	ANNUAL ACCRUAL AMOUNT	COMPOSITE REMAINING LIFE	ANNUAL ACCRUAL RATE PERCENT
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)=(7)/(4)
NONDEPRECIABLE PLANT								
301.00 ORGANIZATION			639,444.87	85,190.00				
302.00 FRANCHISES			425,151.40	56,040.00				
303.20 LAND AND LAND RIGHTS - SOURCE OF SUPPLY AND PUMPING			6,572,147.79	48,367.00				
303.30 LAND AND LAND RIGHTS - WATER TREATMENT			269,319.74	0.00				
303.40 LAND AND LAND RIGHTS - TRANSMISSION AND DISTRIBUTION			730,971.55	12,571.00				
303.50 LAND AND LAND RIGHTS - GENERAL			3,036,656.77	(18,676.00)				
TOTAL NONDEPRECIABLE PLANT			11,673,692.12	183,492				
TOTAL WATER PLANT			208,861,712.67	61,794,747	153,409,895	4,334,908		

* ACCRUAL RATES FOR ADDITIONS AS OF JANUARY 1, 2011 SHOULD BE 5.00%.

**SOAH DOCKET NO. 582-12-6658
TCEQ DOCKET NO. 2012-1058-UCR**

APPLICATION OF AQUA TEXAS, INC., AQUA UTILITIES, INC., AQUA DEVELOPMENT, INC., HARPER WATER COMPANY, INC., AND KERRVILLE SOUTH WATER COMPANY, INC., DBA AQUA TEXAS FOR NORTH AND SOUTHWEST REGION WATER RATE/TARIFF CHANGES	§ § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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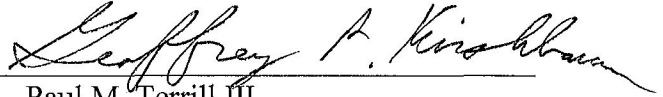
**SECOND AMENDED RESPONSE TO TCEQ EXECUTIVE
DIRECTOR'S REQUESTS FOR INFORMATION**

To: TCEQ Executive Director, by and through his attorney of record, Mr. Ross Henderson, TCEQ Environmental Law Division, MC-173, P.O. Box 13087, Austin, Texas 78711-3087.

Aqua Texas, Inc. Aqua Utilities, Inc. Aqua Development Inc., Harper Water Company, Inc., and Kerrville South Water Company, Inc. d/b/a Aqua Texas ("Aqua Texas") hereby submit the following second amended written response to the requests for information ("RFIs") originally propounded by the TCEQ Executive Director ("ED") on May 30, 2012 and amended during the TCEQ audit of Aqua Texas (June 25-29, 2012).

Respectfully submitted,

THE TERRILL FIRM, P.C.

By: 

Paul M. Terrill III
State Bar No. 00785094
Geoffrey P. Kirshbaum
State Bar No. 24029665
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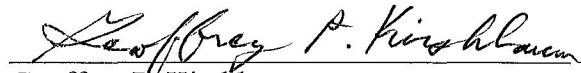
**ATTORNEYS FOR AQUA TEXAS, INC., AQUA
UTILITIES, INC. AQUA DEVELOPMENT, INC.,
HARPER WATER COMPANY, INC. AND
KERRVILLE SOUTH WATER COMPANY, INC.
d/b/a AQUA TEXAS**

CERTIFICATE OF SERVICE

I hereby certify on July 19, 2012 that true and correct copies of the foregoing were served on the following parties as indicated.

Ross Henderson
Staff Attorney
TCEQ Environmental Law Division
P. O. Box 13087, MC 173
Austin, Texas 78711-3087

via e-mail to: ross.henderson@tceq.texas.gov


Geoffrey P. Kirshbaum

WITHHOLDING STATEMENT

Privileged information and materials responsive to these requests will be withheld by Aqua Texas, Inc., Aqua Utilities, Inc., Aqua Development, Inc., Harper Water Company, Inc., and Kerrville South Water Company, Inc. d/b/a Aqua Texas pursuant to TEX. R. CIV. P. 193.3(a). Under TEX. R. CIV. P. 193.3(c), Aqua Texas will not and is not required to assert applicable attorney-client or attorney work product privileges, including privileges related to consulting-only experts. Aqua Texas will assert other privileges, as applicable, within its general objections and separate responses below. Pursuant to TEX. R. CIV. P. 193.3(d), Aqua Texas does not intend to waive any claim of privilege by the inadvertent production of privileged materials.

Subject to these privileges and the objections below, Aqua Texas is undertaking a good faith effort to obtain information and search for the documents responsive to the ED's May 30, 2012 set of RFIs, as amended. Aqua Texas reserves the right to change or supplement its responses in accordance with TEX. R. CIV. P. 193.5, to produce additional documents, and to produce additional evidence at any hearing. Aqua Texas reserves the right to redact from otherwise responsive and non-privileged documents portions that contain information that is irrelevant, non-responsive, or privileged.

GENERAL OBJECTION

Aqua Texas objects to the request accompanying the entire set of ED RFIs stating, "The documentation must indicate North or Southwest Region." There is no applicable law requiring such labeling and Aqua Texas is not required to create documents for production that do not already exist or produce documents in a format different from how they presently exist. Subject to and without waiving the foregoing objection, Aqua Texas makes the following responses.

RESPONSES

Request No. 2, 4, 31, 32, 33 (including amended "Item #33" request), 35, 39, 42, 44 (including additional "Item #44" request), 45, 50 (including amended request for "Item 50") and 51 (including amended request for "Item 51").

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 1: Copies of the detailed general ledger for Aqua Texas SE Region. If the general ledger includes cost of service that were allocated, please provide the total amounts being allocated and the percentage and method of allocation.

Additional Request: As agreed, please provide the general ledger in an excel format so it can be searched/sorted.

Objection: Aqua Texas objects to this request to the extent it requests production of information specific to Aqua Texas SE Region, rather than Aqua Texas North and Southwest Regions to which the pending water rate/tariff change application applies. Aqua Texas' understanding is that the ED's request for Aqua Texas SE Region information is a typographical error and that information is not actually being sought by the ED. The SE Region information requested is not relevant. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Regions, not its SE Region, will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 3: Copies of comparative financial statements for years ending 2009, 2010, and 2011.

Amended Request: Please provide comparative financials for Aqua Texas for 2009, 2010, and 2011 which break down income statements by region/other entity.

Objection: Aqua Texas objects on the basis that the information requested for time periods outside the 2010 test year, as adjusted for known and measurable changes, used in the application or for Aqua Texas' SE Region is not relevant. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist or produce a document in a format different from how it currently exists. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 5: Copies of W-2s and 1099s for salaries and contract services (social security numbers may be redacted).

Objection: Aqua Texas objects to this request to the extent it requests production of the documents identified without redaction of private personnel information beyond social security numbers. Aqua Texas seeks to protect the privacy of its personnel and such information is not relevant to the application. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 6: Provide the name of employees as described in Section II. For each individual identified in Section II, please provide:

- a. the beginning and ending dates of the individual's employment;
- b. the percentage of the individual's time devoted to working for the utility and non utility;
- c. job description including specific duties and responsibilities;
- d. if the person was terminated or no longer employed, indicate whether or not the position will be filled again and the target fill date;
- e. other employees not listed in Section II whose salaries, wages and benefits were included in cost of service. Provide the method and basis of allocation, if any;
- f. a list of positions open and unfilled during 2010, 2009, 2008. Please include title, annual salary, and the number of months during the year the position remained unfilled.

Objection: Aqua Texas objects to this request to the extent it requests production of the documents identified without redaction of private personnel information, such as individual names of employees. Aqua Texas seeks to protect the privacy of its employees and such information is not relevant to the application. Aqua Texas also objects on the basis that the information requested for time periods outside the 2010 test year used in the application is not relevant. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 7: Original employee timesheets and work orders.

Objection: Aqua Texas objects to this request to the extent it requires production of requested documents without employee names redacted. Aqua Texas seeks to protect the privacy of its employees and such information is not relevant to the application. Aqua Texas also objects to the request because it is overly broad, unclear, vague, lacks specificity, and is unduly burdensome. It is unclear what is meant by "work orders." Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 8: Copies of organizational charts to include parent and affiliated companies.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to create

documents for production that do not already exist or produce the requested charts in a format different from how they presently exist. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 9: Copies of any correspondence between Aqua Texas, Inc. and the financial statements auditors regarding internal control issues and any other issues concerning Aqua Texas as a subsidiary.

Objection: Aqua Texas objects to this request because it is overly broad, unclear, vague, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 10: A few copies of customer bills showing meter consumption.

Objection: Aqua Texas objects to this request to the extent it requires production of the requested documents without customer names or other private customer information redacted. Aqua Texas seeks to protect the privacy of its customers and such information is not relevant to the application. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 11: Please provide reconciliations of AT-North and AT-SW Regions' assets, liabilities, income, expense and equity accounts per books (general ledger/financial statements) to the amounts included in the rate/tariff change applications.

Objection: Aqua Texas objects to this request because it is unclear, vague, lacks specificity, and is unduly burdensome. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create documents for production that do not already exist. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for

inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 12: Also, provide reconciliation of AT-North and AT-SW Region Water Asset's reported in the balance sheet for the test year, as of December 2010, to the "Total Original Cost" claimed in these applications. Any differences between the plant/assets "book" value on AT-North and AT-SW Regions' books (financial statements) and items included in the "utility plant in service" in the rate/tariff change application should be explained in detail; "difference between recorded original cost at time of purchase and trended value", and any other category whose total exceeds \$500,000, should also be explained. The categories should be based on AT-North and AT-SW Region's chart of accounts.

Amended Request: Reconcile the balance sheet with the total original costs, accumulated depreciation, and CIAC claimed in the application.

Reconcile the detailed rate base from prior case to the current case, including additions, retirements and any other adjustments since the last rate case for these regions, or Aqua Texas as a whole.

Reconcile the general ledger to the Power Plan[t]/fixed assets software by region, including SE (total, not detail for SE).

Objection: Aqua Texas objects to this request because it is unclear, vague, lacks specificity, and is unduly burdensome. Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Aqua Texas objects to the portion of this request that seeks Aqua Texas Southeast Region information, which is not relevant to this case. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 13: A summary of all journal entries for purchased water plant assets as recorded in AT-North and AT-SW Regions' books (financial statements) including but not limited to the purchase price, acquisition adjustment, original cost of plant and accumulated depreciation, cash or other consideration paid.

Amended Request: Provide the accounting policy for recording purchased water systems on the books, including what set of principles is used. If there is a difference in the accounting per the general ledger and the fixed assets (Power Plan[t] or other) software, please provide amounts and explanations.

Objection: Aqua Texas objects to this request because it is unclear, vague, lacks specificity, and is unduly burdensome. Aqua Texas also objects to this request to the extent it requires Aqua Texas

to create a document for production that does not already exist or produce a document in a format different from how it currently exists. Finally, Aqua Texas objects to this request to the extent it is requesting a summary related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. If provided clarification by TCEQ, Aqua Texas will include responsive documents related to added plant assets in the voluminous responsive non-privileged business records being made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 14: Copies of project costing information for water plant in service.

Amended Request: Documents to demonstrate the project costs estimates or budgets, variances from budget, and recordings of the project in plant account.

Objection: Aqua Texas objects to this request because it is unclear, vague, lacks specificity, and is unduly burdensome. It is unclear what is being requested in this response. Also, Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. If provided clarification by TCEQ, Aqua Texas will include responsive documents related to added plant assets in the voluminous, responsive, non-privileged, business records it will provide for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 16: Original documents detailing historical original cost as recorded in the books according to generally accepted accounting principles and NARUC standards of all installed and purchased water assets. These copies should include any documents used in due diligence investigations when assets were purchased.

Amended Request: Provide the accounting policy for recording purchased water systems on the books, including what set of principles is used. If there is a difference in the accounting per the general ledger and the fixed assets (Power Plan[t] or other) software, please provide amounts and explanations.

Objection: Aqua Texas objects to this request because it is overly broad, unclear, vague, lacks specificity, and is unduly burdensome. It is unclear what is meant by "due diligence investigations." Also, Aqua Texas objects to this request to the extent it is requesting documents related to water

plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. If provided clarification by TCEQ, Aqua Texas will include responsive documents related to added plant assets in the voluminous, responsive, non-privileged, business records it will provide for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 17: For all years AT-North and AT-SW Regions have existed, please provide any documents substantiating AT-North and AT-SW Regions' or its affiliates' due diligence in requesting and researching original cost information (defined in Texas Water Code §13.185(b)) at the time of purchase of water assets in Texas, including written requests to previous owners and resulting document responses, including but not limited to asset listings, income statements and balance sheets of entities being purchased, and invoices or other items used to substantiate original cost.

Objection: Aqua Texas objects to this request because it is overly broad, unclear, vague, lacks specificity, and is unduly burdensome. It is unclear what is specifically meant by the terms "substantiating", "due diligence", or "substantiate" as used in the request. Moreover, Aqua Texas' "due diligence" is not relevant to the rate application. Also, Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. If provided clarification by TCEQ, Aqua Texas will include responsive documents related to added plant assets in the voluminous, responsive, non-privileged, business records it will provide for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 18: Copies of board of directors meeting minutes for 2010, 2011, and 2012.

Privileges: Responsive privileged information and materials are being withheld pursuant to the trade secret privilege under TEX. R. EVID. 507 and the confidential trade secret and confidential commercial/financial information privileges established by TEX. GOV'T CODE § 551.110(a)-(b).

Response: Responsive business records will be made available for inspection at Aqua Texas' Austin office by appointment as requested subject to the terms of a signed protective agreement or order. However, Aqua Texas requests that these documents be reviewed on site. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 19: Copies of all policies regarding budgeting, ethics and travel, controlling of expenditures, and employees including compensation and allocations between affiliates.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Privileges: Responsive privileged information and materials are being withheld pursuant to the trade secret privilege under TEX. R. EVID. 507 and the confidential trade secret and confidential commercial/financial information privileges established by TEX. GOV'T CODE § 551.110(a)-(b).

Response: Responsive business records containing confidential information will be made available for inspection and copying at Aqua Texas' office by appointment subject to the terms of a signed protective agreement or order. Other voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 20: For long term debt and intercompany notes payable as reflected on the balance sheet of AT-North and SW Regions, and Table IV.D, of the applications, please provide copies of the signed notes payable. If the notes payable included debts other than AT-North and SW Region's water, please identify only the notes payable that are applicable to AT-North and SW Regions.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Moreover, the identification requested is not relevant. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits. Aqua Texas properly uses the same statewide equity/capital structure as of 12/31/2010 (the end of the test year) for the purpose of calculating weighted average rate of return in Table IV.D. Therefore, identifications of "only the notes payable that are applicable to AT-North and SW Regions" cannot be performed as requested.

Request No. 21: If the equity or total capital listed on Section IV and Table IV.E of the applications included equity or capital other than that of AT-North and SW Regions, please provide a recalculation of equity/capital applicable to only AT-North and SW Regions.

Objection: Aqua Texas objects to this request because it is unclear. Aqua Texas believes that the request is intended to reference Table IV.D., not IV.E., but is not certain. Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Moreover, the recalculation requested is not relevant. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Aqua Texas properly uses the same statewide equity/capital structure as of 12/31/2010 (the end of the test year) for the purpose of calculating weighted average rate of return in Table IV.D. These are aggregate amounts for Aqua Texas as a state-wide business organization and cannot be broken down regionally. The requested "recalculation" cannot be performed.

Request No. 22: Copies of the sub-ledger for all interest expenses and penalties that were included in the cost of service. Include the name of the payee and the purpose.

Objection: Aqua Texas objects to this request because it is overly broad, unclear, vague, lacks specificity, and is unduly burdensome. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits. Aqua Texas further responds that it has not included "penalties" in the cost of service.

Request No. 23: Copies of all detailed work papers, cost studies, or other data supporting all proposed tariff changes, adjustments to revenues, expenses, rate and other supporting data to the application. Please provide computer files containing schedules for all computer-based calculations.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. It is not clear what format "computer files" are requested in or what is meant by "computer-based calculations". It is also not clear what is meant by "other supporting data to the application" or what documents in particular are being requested that were not already submitted with the application.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 24: Copies of income tax returns for 2009, 2010 and 2011, if AT-SE Region file its own income tax return, or the parent company's income tax returns, and any detailed information for the subsidiary.

Objection: Aqua Texas objects to this request because it is vague, unclear, lacks specificity, and is unduly burdensome. It is not clear what is meant by "income tax return" or "any detailed information for the subsidiary." Regarding tax returns, Aqua Texas is unclear whether the request is referring to federal or state tax filings (or both).

Response: Aqua Texas' understanding is that the ED's request for Aqua Texas SE Region information is a typographical error and that the request intended to reference Aqua Texas' North and Southwest Regions. Voluminous responsive non-privileged business records will be made

available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 25: Provide the names of the lobbyist hired by Aqua Texas and its affiliate company. Indicate whether the amount paid was included in the cost of service.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. It is not clear what is meant by "its affiliate company" since there are several Aqua Texas affiliate companies located outside of Texas and names of lobbyists hired by Aqua Texas affiliates outside of Texas are not relevant. Subject to and without waiving the foregoing objections, Aqua Texas responds as follows.

Response: Andy Barrett, Andy Barrett & Associates, PLLC, is a lobbyist hired by Aqua Texas. Amounts paid for lobbying services to Mr. Barrett's firm are not included in Aqua Texas' cost of service for ratemaking purposes. Amounts paid for legal services that did not constitute lobbying are included.

Request No. 26: Provide calculation of the equity or total capital which were listed in Section IV(A) of the applications for North and SW Regions.

Response: There are no specific calculations for the equity amount presented in either the North or SW Region versions of Section IV(A) of the application. The amount presented in each Section IV(A) represents the total "per books" balance in the equity accounts of Aqua Texas as of 12/31/2010 (the end of the test year).

Request No. 27: If the amount of the Notes Payable listed in Table IV.D of the applications included all Aqua Texas' Regions, please provide a detailed breakdown of the notes for each Region. Include a separate list for water and sewer, if any.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Moreover, the breakdown requested is not relevant. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Aqua Texas properly uses the same statewide equity/capital structure as of 12/31/2010 (the end of the test year) for the purpose of calculating weighted average rate of return in Table IV.D. The list of Notes Payable in Table IV.D. are for Aqua Texas as a state-wide business organization and cannot be broken down regionally. The requested "breakdown" cannot be performed.

Request No. 28: Copies of all contracts with any affiliated companies, and contract services performed by outside contractors, if any; and documents and records supporting the affiliate

company transactions that affect regulated operations. Include the calculations of affiliated company charges.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist. Aqua Texas objects to this request to the extent it seeks information that is not applicable to Aqua Texas North or Southwest Region water cost of service, which is not relevant. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 29: Provide a list of payments to affiliated interests, as defined by the Texas Water Code § 13.185(e) including a description of the item or service purchased, the amount paid to the affiliate, the account name and number in which the item was recorded in the books. For expenses, this question should be answered for the test year. Include all assets or capitalized amounts paid to affiliates.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist or in a different format from that already existing. Aqua Texas Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. For assets/capitalized amounts added since 2004 and test year expenses, voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Amended Request: Provide a list of total and individual corporate charges from Aqua Services to all entities served for the years 2009, 2010, and 2011. The list should be in the form of costs incurred and costs allocated to various states or other entities for the years in question. Also provide the financial statements for Aqua Services. If necessary to show detail of the items included in the cost allocation, provide the general ledger for Aqua Services for the three years.

Provide a list of all total and individual corporate charges from the Philadelphia offices, and similar comparative allocation information as the previous question requests for Aqua Services.

Clarification: Provide contracts for service >\$100,000 per year.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. Aqua Texas objects to the request to provide information for time periods beyond the test year 2010, as adjusted for known and measurable changes, used in the application which is not relevant to the application. Aqua Texas objects to this request to the extent it requests production of the requested documents without redaction of private personnel information, such as individual names of employees. Aqua Texas seeks to protect the privacy of its employees and such information is not relevant to the application. Aqua Texas objects to the request for Aqua Services records which are not within the possession, custody or control of Aqua Texas. Aqua Texas objects to the this request to the extent it requires Aqua Texas to create a document for production that does not already exist or in a different format from that already existing. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 30: Provide specific evidence concerning the reasonableness and necessity of the costs included the cost of service, if any, in compliance with Texas Water Code § 13.185(e).

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. The request also seeks to improperly require Aqua Texas to marshal all its available proof and draft prefiled testimony regarding the reasonableness and necessity of costs included in its cost of service. Aqua Texas also objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Privileges: Responsive privileged information and materials are being withheld pursuant to the trade secret privilege under TEX. R. EVID. 507 and the confidential trade secret and confidential commercial/financial information privileges established by TEX. GOV'T CODE § 551.110(a)-(b).

Response: Responsive business records containing confidential information will be made available for inspection and copying at Aqua Texas' office by appointment subject to the terms of a signed protective agreement or order. Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. If provided clarification by TCEQ, for assets/capitalized amounts added since 2004 and test year expenses, voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 34: On Section X, of the application for "Regional Pass-Through" gallonage charge for North and SW Regions, please provide the names of the providers, actual number of

gallons pumped and sold copies of invoices, and calculation of the pass through for each provider. Include copies of the general ledger.

Objection: Aqua Texas objects to the portion of this request that seeks a “calculation of the pass through for each provider” because that information is not relevant to the application. The application requests regional pass-through gallonage charges calculated for Aqua Texas’ North and Southwest water service regions using an aggregate of each Region’s respective total purchased water and pumping fee costs. Calculation of the pass through “for each provider” is not relevant and cannot accurately be prepared. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objection with respect to the request to provide a “calculation of the pass through for each provider.” However, voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas’ Austin office by appointment as requested that are responsive to the remainder of the request. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 36: The number of connections used for allocating costs on Attachment 2, page 37 is 16,575. This differs from the number of connections listed on Table VII, page 27, which is 16,217. Please provide the number of connections for Aqua Texas, Inc, for water and sewer for each region.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to provide the requested information for any region or service other than North and Southwest Region water. Such additional information is not relevant to this case. Further, the representations in this request are inaccurate. This request appears to be copied from a request the ED propounded on Aqua Texas during its most recent Southeast Region water rate case. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: At the end of the test year (12/31/2010), the total number of active Aqua Texas North Region water connections was 16,467 (16,678 meter equivalents). At the end of the test year (12/31/2010), the total number of active Aqua Texas Southwest Region water connections was 13,731 (14,698 meter equivalents). These totals are reflected in each Section VII of the application and their corresponding meter equivalent figures were used for rate design as reflected in Section X and corresponding work papers. Higher totals that contain both active and inactive connections used for allocation purposes are also included in the application's Attachment 2 work papers. Documents supporting these figures, including the application, will be included within the voluminous responsive non-privileged business records that will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 37: Copies of invoices for rate case expenses incurred up to filing for pursuant to Section 291.28(7).

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to produce attorney-client privileged communications, such as legal invoices, without redaction. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 38: Copies of invoices and calculations to support the amount listed on Table VI.A, Revenue Requirement, of the applications.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist or in a different format from that already existing. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. For assets added since 2004 and other documents supporting Aqua Texas' revenue requirement calculations, voluminous, responsive, non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 40: Copies of the utility's external audit working papers for the most recent independent audit.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. Aqua Texas' "external audit" is regularly performed for all of Aqua America, Inc. and its subsidiaries, which would include information not relevant to Aqua Texas' pending rate application. Moreover, it is not clear what is meant by "the utility's external audit working papers". Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: None. The external audit of Aqua America, Inc. and Aqua Texas is performed by PricewaterhouseCoopers, LLP ("PwC"). PwC's audit working papers, to the extent PwC has retained them, are proprietary and not within the possession, custody, or control of Aqua Texas. However, publicly available audited financial statements for Aqua America, Inc., including Aqua Texas, will be included within the voluminous, responsive, non-privileged business records made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 41: A copy of all invoices for all of the assets claimed in the depreciation schedule of the applications for AT-North and AT-SW regions.

Amended Request: Detailed list of assets added since the last rate case, with the following:

- System Name
- Description of the asset
- Installation Date
- Original Cost or estimated original cost (please label as such)
- Work order number associated with that asset
- Back-up invoices for th[e] work order numbers (for items with cost over \$2,500)
- Identify whether the assets were customer or developer contributed
- For the system[s] [that] were purchased after the last rate case, if trending [was] performed to estimate the original cost, [a] copy of the trending study performed.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. For assets added since 2004, Aqua Texas will provide voluminous, responsive, non-privileged, business records for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 43: The number of active water connections at the beginning and the end of the test year.

Response: Responsive information is found on pages NT-30 and SW-30 of the application (Section VII, Table VII), and corresponding Attachment 2 work papers, as follows:

North Region

Beginning of Test Year: 16,208
End of Test Year: 16,467
Meter Equivalents: 16,678

Southwest Region

Beginning of Test Year: 12,692
End of Test Year: 13,731
Meter Equivalents: 14,698

Request No. 46: Please provide the number of taps installed during the test year.

Response: Aqua Texas installed 235 water taps in the North Region in 2010. Aqua Texas

installed 140 water taps in the Southwest Region in 2010.

Request No. 47: Please provide supporting documentation including project costing and/or invoices for the following:

- a. \$1,100.00 tap fee for AT-North region and \$900.00 for SW region;
- b. \$75.00, reconnect fee for customer's request;
- c. \$50.00, transfer fee;
- d. Actual cost for meter/service relocation fee (customer's request);
- e. \$150.00, standard meter installation;
- f. \$100.00, customer service inspection fee;
- g. \$85.00, illegal reconnection, lock removal, or damage fee;
- h. Actual cost for damaged meter and appurtenance fee;

Objection: Aqua Texas objects to this request because it is unclear as to what is meant by "project costing". Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 48: To satisfy the requirement of Texas Administrative Code (TAC) § 291.81(d)(2), please provide the local address for each subdivision where customers can make water bill payments and obtain applications for service.

Objection: Aqua Texas objects to this request in that it erroneously presumes that Aqua Texas is obligated to satisfy specific requirements set forth in the referenced TCEQ Rule without exception. Also, the rule referenced speaks to submission of applications for service, not obtaining copies of the application document. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records that relate to payment locations and payment methods used by Aqua Texas with Executive Director approval will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

As authorized by the TCEQ Executive Director, Aqua Texas offers a variety of convenient payment methods and payment locations. Aqua Texas also offers a variety of ways to request a copy of its service application and submit it, in addition to making it available online. Even though available 24-7 online, if requested by another method, Aqua Texas provides a hard copy to the person making the request and they are not required to physically obtain the document from a local Aqua Texas office. However, that option is also available.

Request No. 49: Please explain in detail all of the factors that were considered when designing the proposed water rates.

Objection: Aqua Texas objects to this request because it is overly broad, vague, lacks specificity, and is unduly burdensome. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document that does not already exist. Further, the request seeks to improperly require Aqua Texas to marshal all its available proof and draft prefiled testimony regarding the application and proposed rate design set forth in the Application. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Privileges: Responsive privileged information and materials are being withheld pursuant to the trade secret privilege under TEX. R. EVID. 507 and the confidential trade secret and confidential commercial/financial information privileges established by TEX. GOV'T CODE § 551.110(a)-(b).

Response: Aqua Texas stands on its objection to the extent the request would require Aqua Texas to create a special written explanation "in detail" for "all of the factors that were considered when designing the proposed water rates" as requested. However, voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Business records containing confidential information which may be responsive to the request will be made available for inspection at Aqua Texas' office by appointment subject to the terms of a signed protective agreement or order. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 52: For any item listed in the depreciation schedule that has been trended, please provide documentation showing how the trending was performed with a list of references and standards used.

Amended Request: Detailed list of assets added since the last rate case, with the following:

- System Name
- Description of the asset
- Installation Date
- Original Cost or estimated original cost (please label as such)
- Work order number associated with that asset
- Back-up invoices for th[e] work order numbers (for items with cost over \$2,500)
- Identify whether the assets were customer or developer contributed
- For the system[s] [that] were purchased after the last rate case, if trending [was] performed to estimate the original cost, [a] copy of the trending study performed.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the

Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document that does not already exist or present a document in a different format from what exists. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 53: For any item listed in the depreciation schedule that has been trended, please identify whether that asset was paid for by the utility, by any developers, or by customer contributions in aid of construction, and provide the documents to support your claim.

Amended Request: Detailed list of assets added since the last rate case, with the following:

- System Name
- Description of the asset
- Installation Date
- Original Cost or estimated original cost (please label as such)
- Work order number associated with that asset
- Back-up invoices for th[e] work order numbers (for items with cost over \$2,500)
- Identify whether the assets were customer or developer contributed
- For the system[s] [that] were purchased after the last rate case, if trending [was] performed to estimate the original cost, [a] copy of the trending study performed.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Aqua Texas also objects to this request to the extent it requires Aqua Texas to create a document that does not already exist or present a document in a different format from what exists. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 54: Please provide a copy of the documentation showing how the applicant calculated the revenue increase listed in the notice.

Objection: Aqua Texas objects to this request because it is overly broad, vague, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits. The specific calculation is as follows:

AQUA TEXAS -SW NOTICE INCREASE		
Total Cost for Non Surcharge Rates	\$12,513,602	
Add Surcharge Components:		
Purchase Water	\$949,277	
Pumping Fees	\$248,118	
Total Proposed Revenue Requirement		\$13,710,998
Less: Per Book Revenues		(\$10,334,058)
Increase Per Notice		\$3,376,939
AQUA TEXAS -NT NOTICE INCREASE		
Total Proposed Revenue Requirement		\$15,543,990
Test Year Per Book Revenues	\$11,530,083	
Adjust for Test Year Normalization	(\$329,183)	
Less: As Adjusted Test Year Book Revenues		(\$11,200,900)
Total Increase Per Notice		\$4,343,091

Request No. 55: Copies of all the documents used to calculate the Known and Measurable change in annual depreciation claimed in the original applications.

Objection: Aqua Texas objects to this request to the extent it is requesting documents related to water plant assets other than those added since Aqua Texas' last rate filing in 2004 since the Commission already finally determined that inclusion of Aqua Texas' other water plant assets in rate base is reasonable. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Aqua Texas stands on its objections with respect to water plant assets analyzed in its 2004 rate case. Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 56: Please provide all of the related documents to support the volumetric usage normalization and customer growth projected in the application.

Objection: Aqua Texas objects to this request because it is overly broad, vague, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Responsive information is also included in the application. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 57: Provide a list of employees and the amount of bonus included in the cost of service for 2010 and 2011.

Amended Request: Provide the criteria for setting bonus amounts.

Provide any studies evidencing justification for salary amounts at all levels up to Aqua America and down to operations levels.

Objection: Aqua Texas objects to this request to the extent it requests production of the requested information without exclusion of private personnel information, such as individual names of employees. Aqua Texas seeks to protect the privacy of its employees and such information is not relevant to the application. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Privileges: Responsive privileged information and materials are being withheld pursuant to the trade secret privilege under TEX. R. EVID. 507 and the confidential trade secret and confidential commercial/financial information privileges established by TEX. GOV'T CODE § 551.110(a)-(b).

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but employee names will not be included. Further, responsive business records containing confidential information will be made available for inspection and copying at Aqua Texas' office by appointment subject to the terms of a signed protective agreement or order. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 58: Copies of invoices for accounting and legal expenses listed in the applications.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to produce attorney-client privileged communications, such as legal invoices, without redaction. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous responsive non-privileged business records will be made available for

inspection and copying at Aqua Texas' Austin office by appointment as requested, but will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request No. 59: Copies of invoices supporting Corporate Management Fees allocated to North and SW Regions.

Amended Request: Provide a list of all total and individual corporate charges from the Philadelphia offices, and similar comparative allocation information as the previous question requests for Aqua Services.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. Aqua Texas objects to the request to provide information for time periods beyond the test year 2010, as adjusted for known and measurable changes, used in the application which is not relevant to the application. Aqua Texas objects to this request to the extent it requests production of the requested documents without redaction of private personnel information, such as individual names of employees. Aqua Texas seeks to protect the privacy of its employees and such information is not relevant to the application. Aqua Texas objects to the request for Aqua Services records which are not within the possession, custody or control of Aqua Texas. Aqua Texas objects to this request to the extent it requires Aqua Texas to create a document for production that does not already exist or in a different format from that already existing. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested, but employee names will be redacted as appropriate. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

APPLICATION OF AQUA TEXAS,	§	BEFORE THE STATE OFFICE
INC., AQUA UTILITIES, INC., AQUA	§	
DEVELOPMENT, INC., HARPER	§	
WATER COMPANY, INC., AND	§	
KERRVILLE SOUTH WATER	§	
COMPANY, INC., DBA AQUA TEXAS	§	OF
FOR NORTH AND SOUTHWEST	§	
REGION WATER RATE/TARIFF	§	
CHANGES AND APPEALS OF CITY	§	
OF KERRVILLE AND CITY OF	§	
BRAZOS BEND RATEMAKING	§	
ACTIONS	§	ADMINISTRATIVE HEARINGS

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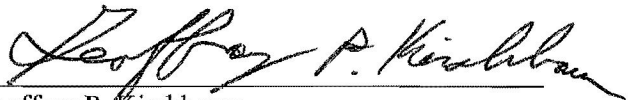
**ATTORNEYS FOR AQUA TEXAS, INC., AQUA
UTILITIES, INC. , AQUA DEVELOPMENT, INC.,
HARPER WATER COMPANY, INC., KERRVILLE
SOUTH WATER COMPANY, INC.**

CERTIFICATE OF SERVICE

I hereby certify that on February 5, 2013, a true and complete copy of the foregoing was sent to the following by facsimile, overnight delivery, or by first class mail:

Parties	Representative / Address	Phone
TCEQ Executive Director	Ross Henderson Dinniah Tadema Executive Director, TCEQ MC-175 P.O. Box 13087 Austin, TX 78711-3087	Tel: 239-6257 Fax: 239-0606 ross.henderson@tceq.texas.gov dinniah.tadema@tceq.texas.gov
Office of Public Interest Counsel of TCEQ	Amy Swanholm TCEQ, OPIC MC-103 P.O. Box 13087 Austin, TX 78711-3087	Tel: 239-6363 Fax: 239-6377 amy.swanholm@tceq.texas.gov
Recently Acquired Water System Group	John Quest Canyon Springs Resort POA 833 Hillside Loop Canyon Lake, TX 78133	Tel: (830)214-4454 Fax: (830)899-8555 jq@gvtc.com
SW Region Existing Water Systems Group	Jay Yount 206 Cherry Falls Comfort, TX 78013	Tel: (830) 995-5844 eyou42@hotmail.com
North Region Group	Rick Guzman 2201 Double Creek 1 #5001 Round Rock, TX 78664	Tel: (512)388-7800 Fax: (512)388-7801 rguzmand@rickguzmanlaw.com

Parties	Representative / Address	Phone
Hill Country Group	Larry Westfall Kerrville South CAG 450 Rim Rock Rd Kerrville, TX 78028	Tel:(830)792-5506 Fax:(830)792-5510 lgwestfall@aol.com
City of Kerrville	Jim Boyle Herrera & Boyle, PLLC 810 Congress Ave., Suite 1250 Austin, TX 78701	Tel: (512) 474-1492 Fax: (512) 474-2507 jboyle@herreraboylelaw.com
City of Brazos Bend	Jim Haley Davis & Wright, P.C. P.O. Box 2283 Austin, TX 78768-2283	Tel: (512) 810-2142 jhaley@txcityattorney.com


 Geoffrey P. Kirshbaum

WITHHOLDING STATEMENT

Privileged information and materials responsive to these requests will be withheld by Aqua Texas, Inc., Aqua Utilities, Inc., Aqua Development, Inc., Harper Water Company, Inc., and Kerrville South Water Company, Inc. d/b/a Aqua Texas pursuant to TEX. R. CIV. P. 193.3(a). Under TEX. R. CIV. P. 193.3(c), Aqua Texas will not and is not required to assert applicable attorney-client or attorney work product privileges, including privileges related to consulting-only experts. Aqua Texas will assert other privileges, as applicable, within its general objections and separate responses below. Pursuant to TEX. R. CIV. P. 193.3(d), Aqua Texas does not intend to waive any claim of privilege by the inadvertent production of privileged materials.

Subject to these privileges and the objections below, Aqua Texas is undertaking a good faith effort to obtain information and search for the documents responsive to the ED's December 6, 2012 set of discovery requests. Aqua Texas reserves the right to change or supplement its responses in accordance with TEX. R. CIV. P. 193.5, to produce additional documents, and to produce additional evidence at any hearing. Aqua Texas reserves the right to redact from otherwise responsive and non-privileged documents portions that contain information that is irrelevant, non-responsive, or privileged.

GENERAL OBJECTIONS

Aqua Texas generally objects to the ED's discovery requests to the extent they call for responses beyond what is required under the Texas Rules of Civil Procedure. Further, Aqua Texas objects to the ED's inclusion of a statement preceding his interrogatories about what information the ED requires, which is not part of any specific request, to the extent it is an attempt to supplement any individual request set forth elsewhere and procure additional information from Aqua Texas. Aqua Texas will only respond to each individual request as presented, rather than this general statement.

ANSWERS TO INTERROGATORIES

Interrogatory No. 1: Please explain how the systems added after the prior 2004 rate case are substantially similar to those systems involved in the 2004 case for both the North and Southwest Regions.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: Please see Application Attachment 3 for both the North and Southwest Regions (NOTE: all references in the Application Attachment 3 for the North Region should be to "North Region" and typographical errors referencing "Southwest Region" will be corrected with Aqua Texas' pre-filed direct testimony and exhibits - the systems listed are all North Region systems). Facilities, quality of service, and cost of service are substantially similar for the added systems within each region when compared with those involved in the 2004 case. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 2: Please explain how the new depreciation study performed and submitted in this proceeding correlates with the rate base set in the 2004 rate case.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: No depreciation study was available during Aqua Texas' 2004 water and sewer statewide rate case. In contrast, a depreciation study was performed by Gannett Fleming, Inc. on Aqua Texas' utility plant as of December 31, 2010. With only two exceptions, service lives recommended in the depreciation study were used in the pending North and Southwest Region water rate/tariff change Application. The depreciation study generally extended the useful lives of plant assets. This has the effect of reducing depreciation expense and lowering the future accumulated depreciation of utility plant, which in turn slows the reduction of rate base. The service lives used in the Application appear in the portion of the Application titled "Section III.B. Alternative - Original Cost and Depreciation by NARUC Account."

The pending filing reflects lower current and future expenses, but there was no retroactive adjustment to rate base set in Aqua Texas' 2004 case. Assets, unless retired, added, or replaced since Aqua Texas' 2004 case, remain used and useful and retain original cost values as determined in Aqua Texas' 2004 rate case. However, depreciation values will necessarily change where different service lives are used. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 3: Please clarify why AT is using normalized volumes in its rate design.

ANSWER: Please see Aqua Texas' discussion included in Application, Attachment 1, Part III.A for both North and Southwest Regions. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 4: Please clarify whether or not AT is intending to use normalized volume in its pass-through provisions.

OBJECTION: This interrogatory is vague, ambiguous, lacks specificity and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: The interrogatory as written is confusing. If this question relates to Aqua Texas' regional pass-through gallonage charge and adjustment provisions, the answer is as follows. The regional pass-through gallonage charge requested in the Application was developed with the same volume information as Aqua Texas' regular gallonage charge based on normalized volumes. However, certain actual test year costs were used to develop the charge. Aqua Texas' requested regional pass-through gallonage charge adjustment provision would start out using the application volume information with actual costs for the first 3 years following the Application filing, but then

shift to actual volume information with actual costs for the preceding 12 month period if more than 3 years have passed. Please see the regional pass-through gallonage charge adjustment provision included in Aqua Texas' proposed tariffs filed with the Application for each region where this is specifically stated. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 5: Please explain why the line loss calculations performed by AT for North and SW Regions are different.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: The interrogatory as written is unclear as to what difference is being asked about. The calculations include different figures because they are for two different regions. One of the ED's February 15, 2012 notice of deficiency ("NOD") items (#6) mentioned an issue concerning a difference between formulas used on Application page NT-31 and page SW-31. In response, Aqua Texas submitted an updated Application page SW-31 which made the calculation methods consistent. The supporting work papers found at Application, Attachment 2, WP-Non Rev Water for both the North and Southwest Region follow consistent calculation methods. Aqua Texas is unaware of any other differences to which the ED may be referring. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 6: Please explain why AT is not using the services lives for the Wells and Springs and Office Furniture and Equipment as recommended by the Depreciation Study.

ANSWER: In the last case, the service lives for Aqua Texas' wells were set at 30 years. The new depreciation study performed by Gannett Fleming, Inc. determined a 50-year life was appropriate for wells and springs. Aqua Texas believes either figure is supportable, but because of the ongoing drought occurring Texas and the fact that drought can make wells go drier quicker, Aqua Texas used the average of the two figures for Wells and Springs in the Application at the time of filing. For Office Furniture and Equipment, at the time of filing, Aqua Texas believed based on experience that a longer life (10 years) was more appropriate for these items than the shorter life (5 years) determined by the depreciation study. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 7: Please explain whether and why AT has performed trending analyses for any assets that are included in the rate base of these applications.

ANSWER: Aqua Texas has performed trending analyses for certain acquired assets included in the rate base for each region in the Application. The Texas Water Code requires utilities to earn return on assets based on their original cost when first dedicated to public use (*i.e.*, placed into service) by a utility or a predecessor, less depreciation. TEX. WATER CODE §13.185(b). NARUC

standards require supporting records or, if records are unavailable or unreliable, an estimate to establish original cost and depreciation values. Trending studies are the most reliable way to estimate original cost and depreciation values for acquired assets with no reliable or existing records. Aqua Texas has used such studies to estimate original cost and depreciation for these assets under these circumstances and such studies have been accepted by TCEQ and other regulatory authorities in the past for ratemaking purposes. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 8: Please explain what AT has done to reduce the excessive line loss (greater than 15%) in the North region.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: The basis in law or fact for the ED's statement about "excessive line loss" in the interrogatory is not clear. However, Aqua Texas has implemented the following measures in an effort to minimize water loss in its North Region:

1. Water Accountability Spreadsheet Tracking - calendar monthly Water Production tracking reports provide Aqua Texas with a snapshot shortly after the end of each month. In addition the recent upgraded Banner Water Loss tracking allows us to compare the exact same period of water production to water consumption. This information triggers certain types of data and field reviews designed to identify the source of water loss.
2. Field Investigations of Water Losses - which may include:
 - a) Weekly meetings with the operational staff to stress the need to stay alert for leaks and theft within the system,
 - b) Visual inspection of the entire distribution system (including accessing every meter box) identifying leaks and water theft,
 - c) Continuous plant operation during the early morning hours to identify pumps turning on too frequently,
 - d) Installing Ultrasonic flow measuring equipment on mains to identify flow patterns,
 - e) Water line pressure tests to isolate areas with significant pressure drops,
 - f) Leak detection services,
 - g) Excavation of suspicious areas of leaks and water thefts.
3. Leak Detection using SAMCO Leak Detection Services, Inc.
4. Replacement of Water Mains - When the water loss is high and/or there are a significant number of leak repairs on a segment of line, a capital improvement plan is initiated to replace that main.

Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 9: Provide a list of all deferred expenses AT intends to request recovery for in this rate case consistent. For each deferred expense: include the dollar amount, general ledger account number, account description, an explanation for the expense is consistent with SFAS No. 71, and AT's requested method of recovery.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. There are also typos which make the interrogatory unclear. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: The only type of deferred expense Aqua Texas is requesting recovery for in this case is its rate case expenses. The general ledger account number for these expenses is "Account: 186107 - Deferred Rate Case Expense - TX". Limited amounts of estimated rate case expenses up to the time the application was filed were included in each region's cost of service and should be recovered through Aqua Texas' basic rate structure. North Region, Attachment 2, "WP-Adj13-Rate Case Exp" shows the total for the North Region pre-filing rate case expenses at \$258,743, then amortized over 3 years for a cost of service amount of \$86,248 per year. Southwest Region, Attachment 2, "WP-Adj13-Rate Case Exp" shows the total for Southwest Region rate case expenses at \$162,000, then amortized over 3 years for a cost of service amount of \$54,000 per year. Aqua Texas has incurred more than the total rate case expense amounts provided above. Rate case expenses in excess of the totals above should be recovered through a surcharge assessed to North Region and Southwest Region water customers. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 10: Finding of fact number 64 from the Final Order issued in Dockets No. 2004-1671-UCR and 2004-1120-UCR (AT's 2004 rate applications) states, "It is reasonable and necessary for AT to recover \$10,946,000 in deferred expenses through a surcharge," and general and/or procedural conclusions number 23, which states "Aqua Texas may recover its deferred expenses through a monthly surcharge in the amount of \$9.94 per connection for 24 months." Please provide the total amount collected in all years by AT as a result of the TCEQ order described above.

OBJECTION: This interrogatory does not seek relevant information and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: \$10,924,038.39.

Interrogatory No. 11: Please demonstrate that none of the deferred expenses collected by AT since 2004 (as described above) have been used for capital improvements.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. The interrogatory purports to require Aqua Texas to prove a negative and to do so in an unspecified manner. Further, this interrogatory does not seek relevant information and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: The amounts billed and collected by Aqua Texas pursuant to the 2004 rate case order described in Interrogatory No. 10 were to reimburse operating expenses incurred and deferred in prior years, not for capital improvements. As these funds were collected, the amount of deferred expense in Aqua Texas' account was reduced. The small portion of the authorized total Aqua Texas did not collect through the deferred expense surcharge was written off and is not sought for recovery in this rate case. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 12: Please explain how allocations for expenses and capital improvements are made between AT's water and sewer operations in Texas.

ANSWER: Aqua Texas' capital improvements are typically treated as direct charges for the region and type of service (water or sewer) the improvement benefits. The exception is common assets. The common assets for the state are allocated between water & sewer operations based on customer count.

Expenses are allocated differently depending on the type of expense. If it is a labor related expense it is allocated based on a percentage of direct charged labor expense for the region and type of service (water or sewer) the labor benefits. If it is a state level common expense it is allocated based on customer count. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 13: Please provide a calculation of the tax savings for the test year that would have been obtained by filing a consolidated federal income tax return.

OBJECTION: This interrogatory is vague, ambiguous, lacks specificity and is unduly burdensome. Further, this interrogatory does not seek relevant information and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: Aqua Texas cannot possibly answer this question. First, there is no Texas statute, TCEQ rule, guidance document, or stated policy about how a calculation for such tax savings should be administered for Texas investor-owned water utilities. Second, Aqua America actually files a consolidated federal income tax return that includes Aqua Texas and, therefore, this question regarding what the savings would be if a consolidated return was not filed is inapplicable as to Aqua Texas. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 14: Please list all rates of return on equity ordered by all regulatory agencies to Aqua America for water and wastewater services served by Aqua America (or its affiliated companies) in 2009, 2010, and 2011.

OBJECTION: This interrogatory is overly broad and unduly burdensome. Further, this interrogatory seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. The interrogatory also seeks information that is readily available in the public domain and equally available to both the ED and Aqua Texas. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

ANSWER: Aqua Texas stands on its objections.

Interrogatory No. 15: Please explain the “Auto Offset to Zone #” entries in the general ledger in accounts 923104 through 923195, account descriptions “IntraZone Acct Co # Zone #.”

OBJECTION: This interrogatory is vague, ambiguous, lacks specificity and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: This is a balancing entry between legal entities within the state. The full set of account numbers in the group is 923101 through 923196. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 16: Please explain how bonuses for Aqua America and Aqua Texas employees are determined by the respective employers.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. This interrogatory also seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: In 1989, Aqua America, Inc. and its compensation consultant conducted a feasibility study to determine whether Aqua America, Inc. should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies with incentive compensation.

The study included interviews with executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that Aqua America, Inc.’s objectives and competitive practice supported the adoption of an annual incentive plan (the “Plan”). Aqua America, Inc. has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors believe it has had a positive effect on Aqua America, Inc.’s operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses). The Plan has two components - a Management Incentive Program and an Employee Recognition (“Chairman’s Award”) Program.

The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of Aqua America, Inc. The Management Incentive Program covers officers, managers and certain key employees of Aqua America, Inc., and its subsidiaries. The Employee Recognition Program known as the Chairman's Award program is to reward non-union employees who are not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of Aqua America, Inc. Awards are entirely discretionary and may or may not be awarded to any individual employee. The availability of Awards is also contingent upon Aqua America, Inc.'s meeting certain metrics of successful performance.

The Management Incentive Program awards annual incentive bonus awards calculated by multiplying an individual's Target Bonus by a Company Factor based on the applicable company's performance and an Individual Factor based on the individual employee's performance. The approach of having a portion of the calculation of the annual incentive bonus tied to the applicable company's financial performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the company and making its capital construction and acquisition programs possible. Customers also benefit from the participants' individual objectives being met, as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 17: Please explain how pay increases for employees of Aqua America and Aqua Texas are determined by the respective employer.

OBJECTION: This interrogatory is overly broad, vague, ambiguous, lacks specificity and is unduly burdensome. This interrogatory also seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: Aqua Texas and Aqua America offer a competitive industry compensation and benefits package and strive to ensure positions are market competitive. Each year the HR Department evaluates approximately 10% of the company positions by comparing them to published industry benefit surveys. Additionally, every four to five years a compensation consultant conducts a salary structure study to ensure all positions are receiving industry competitive compensation. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

Interrogatory No. 18: Please explain how AT will seek to allocate any rate case expenses between the regions and the city appeals should they be awarded. Your answer should also explain how the rate case expenses will be allocated between settled regions and cities and the unsettled matters.

OBJECTION: This interrogatory is vague, ambiguous, lacks specificity and is unduly burdensome. The interrogatory also seeks information that is not relevant, improperly presuming

that the allocations stated are sought by Aqua Texas or otherwise appropriate in this case. In part, the interrogatory calls for speculation by Aqua Texas as to how this issue will be decided by the Commission. Subject to and without waiving the foregoing objection, Aqua Texas answers as follows.

ANSWER: Rate case expenses up to the time of filing were allocated between each region as stated in the Application. No further rate case expense allocation is appropriate and these expenses should be recovered from all unsettled North and Southwest Region water customers as a surcharge applied on a per connection basis. Aqua Texas may supplement this response with its pre-filed direct testimony and exhibits.

RESPONSES TO REQUESTS FOR PRODUCTION

Request for Production No. 1: Please provide the reconciliation report with detailed listing of assets for both North and SW regions including original costs and installation date of each asset to match the total costs as reported in the application.

Objection: Aqua Texas objects to this request to the extent it requires Aqua Texas to create documents for production that do not already exist or produce requested documents in a format different from how they presently exist. Further, the request is unclear as to what “reconciliation” is being requested, if any, in addition to asset information already provided in the application, supplemental material, and in response to prior ED requests for information. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas’ North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas’ Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 2: Please provide the invoices for all the assets (for each item above \$3000) added for both North and SW regions after the rate base was set in the 2004 AT rate case.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas’ North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas’ Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 3: Please provide the details of retired assets since the rate base was set in the 2004 rate case and reconcile those retirements with these current applications.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas’ North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas’ Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 4: Please provide the details of salvage value of the assets and reconciliation with the applications, if AT is requesting it in these applications.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas’ North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas’ Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 5: Please provide the documents that show the total number of gallons of water pumped, purchased and billed to customers during the test year ending 12/31/2010 for both the North and SW regions.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 6: Please provide the supporting documents for the proposed tap fee of \$900 for SW region and \$1,100 for North region.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 7: Please provide the supporting documents for other Miscellaneous fees such as reconnect fee for customer's request, transfer fee, standard meter installation fee, customer service inspection fee and illegal reconnect, lock removal, or damage fee.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 8: Please provide the supporting documents for customer and developer contributed assets reported in the applications.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 9 Please provide a detailed trending study, if AT is requesting any trended assets to be included in the rate base. Please include the name of the public water system and detailed list of assets for each and every trended system.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 10 Please provide documents that demonstrate that the systems added by AT after the 2004 rate case are substantially similar to the systems involved in the 2004 rate case.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 11 Please provide any documents that show AT has been working to reduce the excessive line loss in the North region.

Response: The basis in law or fact for the ED's statement about "excessive line loss" in the request is not clear. However, voluminous, responsive non-privileged business records pertaining to Aqua Texas' North Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 12 Please provide any documents showing the reconciliation between the rate base set in the 2004 case depreciation study and the new applications for rate base.

Response: After a diligent search, no responsive documents have been identified. There was no "2004 case depreciation study."

Request for Production No. 13 Please provide all documents used by Aqua Texas employees and management to compare and analyze income, expenses, assets and equity for all regions in Texas for 2012, 2011, 2010 and 2009 for rate making purposes and cost control purposes.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 14 Please provide all documents substantiating that allocations of overhead to Texas operations from Aqua America and any other affiliates, including any capitalized overhead, meet the affiliated interest test in Texas Water Code Section 13.195(e). Your substantiation should include a comparison of amounts and percentages for each expense category or capital investment category allocated to Texas as a whole and by region, and compared with amounts charged to each other state in which Aqua America provides water and/or sewer service. The comparisons should be made for 2012, 2011, 2010 and 2009.

Objection: This request is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. The request seeks information that is not relevant and not reasonably calculated to lead to the discovery of admissible evidence. Further, Aqua Texas objects to this request to the extent

it requires Aqua Texas to create documents for production that do not already exist or produce requested documents in a format different from how they presently exist. Also, Aqua Texas presumes that the reference in the request is intended to be Texas Water Code Section 13.185(e). Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations for the years 2010 and 2011 will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 15 Please provide the same affiliated interest payment report that was provided in Aqua Texas bates stamp 307173 through 307184 (from the 2004 rate case) for the following:

- a) all affiliates, internal "Customer Operations Companies" such as "Customer Operations Company 18" as listed on Aqua Texas bates number 307173;
- b) all Texas regions;
- c) all operations outside Texas.

Objection: This request is unclear in that it purports to request a document from Aqua Texas' 2004 rate case that was actually provided to the ED in response to the ED's Requests for Information for the Application that is the basis of this contested case. Moreover, it appears to request information that is not relevant and not reasonably calculated to lead to the discovery of admissible evidence. Finally, it appears the ED already has the document requested in its possession.

Response: Aqua Texas is not sure what the ED is asking for in this request that it does not already have. Aqua Texas stands on its objections.

Request for Production No. 16 Please provide documentation on the reasonableness and necessity of all Aqua America expenses and capital costs allocated to Aqua Texas.

Objection: This request is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Regions will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 17 TCEQ has received Aqua America's employee handbook, however, it did not detail benefits for Texas employees. Please provide a copy of any Texas

employee handbooks, manuals, or other internal documentation that explains the applicant's and any affiliate's policies and payments of employee benefits including vacation, sick leave, health insurance, and bonuses. Please include the annual carry over policies for vacation pay, sick leave and any other benefits accruing to employees. If such policies exist and are not written, please provide an explanation.

Objection: In part, the request is overly broad and seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Further, Aqua Texas objects to this request to the extent it requires Aqua Texas to provide an explanation in response to a request for production, which is improper, or create a document for production that does not already exist. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records showing the requested policies pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas stands on its objections to the extent the request seeks information pertaining to non-applicant affiliates. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 18 Please provide all reconciliations of total employee labor and benefits and any other expenses incurred by Aqua America, Aqua Services, and any other affiliate which were allocated out to each affiliate and each region in Texas for 2012, 2011, 2010 and 2009.

Objection: This request is overly broad, unduly burdensome, vague, ambiguous, and lacks specificity. Further, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Further, Aqua Texas objects to this request to the extent it requires Aqua Texas to create documents for production that do not already exist or produce requested documents in a format different from how they presently exist. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records for years 2010 and 2011 only will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas stands on its objections with respect to other documents requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 19 Please make available in Aqua Texas' Austin offices, all monthly or annual reports prepared for fixed assets for all Texas regions for 2012, 2011, 2010 and 2009. Please include reports for internal management of assets, reports issued from the general ledger or from the fixed asset software, including Power Plant software.

Objection: This request is overly broad, unduly burdensome, vague, ambiguous, and lacks specificity. Further, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Further, Aqua Texas objects to this request to the extent it requires Aqua Texas to create documents for production that do not already

exist or produce requested documents in a format different from how they presently exist. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas stands on its objections with respect to other documents requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 20 Please make available in Aqua Texas' Austin offices, all monthly and annual billing reports generated by Aqua Texas to track amounts billed, accounts receivable, usage, deposits, and other customer information for all Texas regions for 2012, 2011, 2010 and 2009. TCEQ staff intends to audit billing records for appropriate billings and receivable amounts and these documents should be made available at the Austin offices at that time.

Objection: This request is overly broad, unduly burdensome, vague, ambiguous, and lacks specificity. Further, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 21 Please provide copies of any other documents substantiating customer numbers with the rate application and customer numbers in Aqua Texas' books and records. Staff intends to audit this account and these documents or computer access with appropriate Aqua Texas staff. The documents should be made available during the audit at your Aqua Texas offices.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 22 Please provide copies of reports substantiating all revenues in general ledger account numbers 461100, 461200, 471000, 474010, 474030, and 474040 for 2010 and 2009. Staff intends to audit this account and these documents or computer access with appropriate Aqua Texas staff should be made available during the audit at your Austin offices.

Objection: This request is overly broad and unduly burdensome. Further, the request seeks information from 2009 that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 23 Provide any and all AT prepared monthly and annual report showing allocations between AT's water and sewer operations for 2011, 2010 and 2009.

Objection: This request is overly broad and unduly burdensome. Further, the request seeks information from 2009 that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Regions will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 24 Please provide access in your Austin offices, to all invoices, expense reports, and any other documentation establishing the necessity and reasonableness of all items in the Sundry charges for the test year. TCEQ staff intends to make specific requests for documents supporting Sundry charges and a list of specific items will be provided at the audit(s). Our understanding is that Aqua America pays for an online system (Perceptive software) for invoices and these should be accessible without further rate case expense cost incurred due to posting invoices on computer accessible "clouds" on the internet.

Objection: This request is overly broad, vague, ambiguous, and lacks specificity. Further, Aqua Texas objects to this request to the extent it requires Aqua Texas to create documents for production that do not already exist or produce requested documents in a format different from how they presently exist. The manner of production requested is also beyond what is required by the Texas Rules of Civil Procedure. Aqua America, Inc. records are retained in Bryn Mawr, Pennsylvania and Aqua Texas does not know what is meant by "Perceptive software."

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment that relate to the service and sundry charges for the test year charged to Aqua Texas by Aqua America, Inc.. However, if other items are desired, the ED will need to inform Aqua Texas of same and Aqua Texas will need time to request the documents from Aqua America, Inc. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 25 Please provide copies of all substantiation of the reasonable and necessary amounts included in your general ledger account number 10300, Property held for

future use. Staff intends to audit this account and these documents or computer access with appropriate Aqua Texas staff should be made available during the audit at your Austin offices.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 26 Please provide copies of all substantiation of the reasonable and necessary amounts included in your general ledger account number 10400, CWIP. Staff intends to audit this account and these documents or computer access with appropriate Aqua Texas staff should be made available during the audit at your Austin offices.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Regions water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 27 For any deferred expenses AT intends to request recovery for in this rate case, please provide all documents substantiating the reasonableness and necessity of the deferred expense for providing water or sewer service.

Response: There is no recovery of any deferred expenses sought in this case with respect to sewer service and, after a diligent search, Aqua Texas has no responsive documents to provide for same. Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 28 Provide all documentation that AT intends to use as support that TCEQ has approved recovery of any deferred expenses responsive to TCEQ interrogatory number 10.

Response: See the Final Order issued by the TCEQ on September 23, 2008 for Aqua Texas' 2004 Rate Application which is available in the public domain.

Request for Production No. 29 With regard to general ledger account numbers 923104 through 923195, account description "IntraZone Acct Co # Zone #", please provide the list of journal entries and descriptions explaining each journal entry for all journal entries included in the 2010 general ledger. Staff intends to audit these accounts and these documents or computer access with appropriate Aqua Texas staff should be made available during the audit at your Austin offices.

Response: The full set of account numbers in the group is 923101 through 923196 for interstate balancing accounts. Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 30 Provide any and all reports generated which track AT's construction work in progress (CWIP) and allowance for funds used during construction (AFUDC) balances for 2009, 2010, and 2011.

Objection: This request is overly broad and unduly burdensome. Further, the request seeks information from 2009 that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations for 2010 and 2011 will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 31 Please provide copies of AT's accounting trial balances at 12/31/2011, 12/31/2010, and 12/31/2009 for all regions (separately), and for AT as a whole.

Objection: This request is overly broad and unduly burdensome. Further, Aqua Texas objects to this request to the extent it requires Aqua Texas to create documents for production that do not already exist or produce requested documents in a format different from how they presently exist. Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 32 Provide a rate of return worksheet completed with all responses and checked items along with backup documentation supporting AT's assertions in the worksheet. The "rate of return worksheet" for the purposes of this rate case means the TCEQ Form 10423 Instructions document, page 27 of 28 under "Appendix A" title sheet.

Objection: This request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence in that Aqua Texas did not determine its requested rate of return on equity proposed in the Application using the referenced rate of return worksheet. Aqua Texas has reasonably relied upon a rate of return expert to determine its reasonable return on equity as permitted by the TCEQ rate/tariff change application form and instructions. There is no

prohibition to the contrary as the ED is aware. Aqua Texas objects to this request to the extent it purports to require Aqua Texas to create a document for production that does not already exist.

Response: Aqua Texas stands on its objection.

Request for Production No. 33 Provide any written documentation supporting AT's assertion that a 12% rate of return is reasonable and necessary for providing water and sewer service in Texas.

Objection: This request is vague, ambiguous, and lacks specificity. Further, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence in that Aqua Texas did not request a 12% overall rate of return. Aqua Texas requested a 12% rate of return on equity and there is a distinction. Moreover, sewer service is not relevant to this water rate case. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations related to its 12% rate of return on equity request and its overall rate of return request will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 34 Please provide all invoices for rate case expenses accrued in these applications and in the related Appeals of City decisions and documents which explain how AT is seeking the expenses to be allocated.

Objection: This request is vague, ambiguous, and lacks specificity. Further, in part, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence in that Aqua Texas is not requesting the type of allocation sought for post-filing rate case expenses. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water rate case expenses will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 35 Please provide all reports generated which include the name, title and job description of each employee for Aqua America, Aqua Texas, and any other affiliates receiving stock options or compensation other than salaries in excess of \$10,000 per employee per year on a cumulative basis.

Objection: This request is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. Further, the request seeks information that is not relevant and is not reasonably

calculated to lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Aqua Texas does not provide stock options or other compensation to any employee on a cumulative basis. Voluminous, responsive non-privileged business records demonstrating how stock options and other compensation are provided will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 36 Please provide the documents determining who is awarded stock options or other compensation other than salary, the basis for determining the award, and the value of the stock options or compensation other than salary granted for 2009, 2010, and 2011.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 37 Please provide a copy of 2009, 2010, and 2011 Statements of Cash Flow for AT and Aqua America.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 38 Please provide a complete list of all financial and managerial reports not previously provided or available, used by management for decision making for AT, Aqua Services, Inc. and Aqua America. This request for production covers 2009, 2010, and 2011.

Objection: This request is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. Further, the request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Aqua Texas objects to this request to the extent it purports to require Aqua Texas to create a document for production that does not already exist or in a format different from how it already exists. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records in the form of 2010 and 2011 reports of the type requested will be made available for inspection and copying at Aqua Texas' Austin office by appointment, but Aqua Texas stands on its objections with respect to the request to create a list. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 39 Please provide copies of management letter, as defined by generally accepted accounting principles, prepared by your Internal Auditor(s) and/or External Auditor(s) for AT and Aqua America. Including management responses.

Objection: This request lacks specificity as to which year the information requested pertains. Subject to and without waiving the foregoing objection, Aqua Texas makes the following response.

Response: After a diligent search, no management letter as requested has been identified to exist for Aqua Texas. Further, no management responses have been identified to exist as requested. The 2010 management letter for Aqua America, Inc. will be included within the voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations that will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 40 Please provide a copy of any and all analyses or reports that support the statement in your notice cover letter for this application dated December 16, 2011 that "Aqua's operations and maintenance cost per customer in North Texas increased only slightly-and less than inflation-since 2004."

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Regions will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 41 Please provide a list of legal expenses, settlement costs, or other expenses related to law suits that AT asserts should be included in the cost of service in this rate case, including any amounts that are included in fixed assets.

Objection: This request is vague and ambiguous as to whether the requested information pertaining to "law suits" is intended to also cover administrative matters.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 42 Please provide copies of any correspondence or documents provided to internal or external auditors used in the preparation of Aqua America or Aqua Texas's audited financial statements.

Objection: This request is overly broad, vague, ambiguous, lacks specificity, and is unduly burdensome. The year for which this information is requested is not specified. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to 2010 will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas stands on its objections with respect to other information that may be covered by this request. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 43 If Aqua Texas is audited internally or externally, please provide the auditor's reports and management letters for 2009, 2010 and 2011.

Response: Voluminous, responsive non-privileged business records will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 44 Please provide a copy of the management report which includes a list of lawsuits you are currently involved in or have been involved in in the last 3 years that involve Texas, or for which related expenses are included in cost of service for this rate case.

Objection: This request is vague and ambiguous as to whether the requested information pertaining to "law suits" is intended to also cover administrative matters.

Response: After a diligent search, no "management report" as described has been identified to exist. However, voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment as requested. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 45 Please provide any other documents that support your responses in previous interrogatories.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

Request for Production No. 46 Please provide any other documents which you plan to use in this proceeding.

Objection: Aqua Texas objects to this request because it is overly broad, vague, unclear, lacks specificity, and is unduly burdensome. The request also seeks to improperly require Aqua Texas to marshal all its available proof. Subject to and without waiving the foregoing objections, Aqua Texas makes the following response.

Response: Voluminous, responsive non-privileged business records pertaining to Aqua Texas' North and Southwest Region water operations will be made available for inspection and copying at Aqua Texas' Austin office by appointment. Aqua Texas may supplement this response with its Prefiled Testimony and Exhibits.

RESPONSES TO REQUESTS FOR ADMISSION

Request for Admission No. 1 Admit that AT is requesting to use the service lives for assets as recommended by the Depreciation Study submitted in this case.

Response: Cannot admit or deny. For the most part, Aqua Texas is requesting to use the service lives recommended by the Depreciation Study. There are two exceptions: (1) Wells and Springs; and (2) Office Furniture and Equipment. These exceptions are discussed in response to the ED's First Set of Interrogatories No. 6.

Request for Admission No. 2 Admit that AT uses different approaches in its applications to calculate line loss for North and SW regions.

Response: Deny.

Request for Admission No. 3 Admit that AT does not intend to change the accumulated depreciation amount set in the rate base in 2004 rate case for North and SW regions.

Response: Admit.

Request for Admission No. 4 Admit that AT and/or Aqua America generate internal reports for your management's planning, analysis or comparison purposes and rate planning for its Texas regions with regard to expenses, overhead allocations, revenues, or capital assets and investments.

Response: Admit.

Request for Admission No. 5 Admit that AT and/or Aqua America generate internal reports for your management's planning, analysis, or comparison purposes for your state operations in the United States with regard to expenses, overhead allocations, revenues or capital assets and investments.

Response: Admit.

Request for Admission No. 6 Admit that Aqua America incurs expenses on an annual basis for PerceptiveSoftware Lawson Financial Systems.

Response: Cannot admit or deny. Aqua Texas is uncertain what is meant by "expenses" for "PerceptiveSoftware Lawson Financial Systems."

Request for Admission No. 7 Admit that AT's expense invoices are available to AT's employees on Aqua America's PerceptiveSoftware Lawson Financial System.

Response: Cannot admit or deny. Aqua Texas is uncertain what is meant by “Aqua America’s PerceptiveSoftware Lawson Financial System.”

Request for Admission No. 8 Admit that AT pays a portion of the expense via allocation from Aqua America’s PerceptiveSoftware Lawson Financial System.

Response: Cannot admit or deny. Aqua Texas is uncertain what is meant by “Aqua America’s PerceptiveSoftware Lawson Financial System.”

Request for Admission No. 9 Admit that Aqua America’s invoices are available to AT’s employees on Aqua America’s PerceptiveSoftware Lawson Financial System.

Response: Cannot admit or deny. Aqua Texas is uncertain what is meant by “Aqua America’s PerceptiveSoftware Lawson Financial System.”

Request for Admission No. 10 Admit that AT has not requested recovery of deferred expenses in these applications.

Response: Deny.

Request for Admission No. 11 Admit that AT does not intend to request recovery of deferred expenses in the applications.

Response: Deny.

Request for Admission No. 12 Admit that AT does not intend to request recovery of deferred expenses in City appeals.

Response: Deny.

Request for Admission No. 13 Admit that AT recovered more than \$10,946,000 in deferred expenses since 2004. For reference, TCEQ order issued in Docket 2004-1671-UCR and 2004-1120-UCR, finding of fact number 64, which states, “It is reasonable and necessary for AT to recover \$10,946,000 in deferred expenses through a surcharge,” and general and/or procedural conclusion number 23, which states, “Aqua Texas may recover its deferred expenses through a monthly surcharge in the amount of \$9.94 per connection for 24 months.”

Response: Deny.

Request for Admission No. 14 Admit that over or under recovery from customers of pass through charges for purchased water or conservation districts or subsidence districts, such as the pass through clause included in AT's proposed tariff in this case, are possible unless a true-up to actual expenses is put in place with a provision correcting the over or under recovery in a reasonable amount of time.

Response: Admit.

Request for Admission No. 15 Admit that an increase or decrease in the number of connections could cause an over or under recovery of costs subject to a tariffed pass through clause implemented on a regional basis, such as the pass through clause included in AT's proposed tariff in this case.

Response: Admit.

Request for Admission No. 16 Admit that variations in usage by customers could cause an over or under recovery of costs subject to a tariffed pass-through clause implemented on a regional basis.

Response: Admit.

Request for Admission No. 17 Admit that AT has not provided any written, verifiable evidence that a pass-through clause on a regional basis will provide economies of scale that will reduce the cost of service and financially benefit customers.

Objection: Aqua Texas' pre-filed direct testimony and exhibits in this case are not due yet. Therefore, Aqua Texas has not yet had occasion to provide "evidence". Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Deny.

Request for Admission No. 18 Admit that AT has not provided any written, verifiable evidence that regionalization in Texas, as implemented by AT since 2000, has reduced costs through economies of scale or benefitted the customers.

Objection: Aqua Texas' pre-filed direct testimony and exhibits in this case are not due yet. Therefore, Aqua Texas has not yet had occasion to provide "evidence". Subject to and without waiving the foregoing objection, Aqua Texas responds as follows.

Response: Deny.

Request for Admission No. 19 Admit that changes in AT's allocations and application of direct expenses between regions over more than one year could result in over or under collection of a particular region if rate cases are not filed for all regions based on a single test year. If this assertion is denied, please provide a complete explanation and justification of the denial.

Response: Cannot admit or deny. The benchmark for what would be considered "over or under collection" is not clear. Expenses will necessarily change from year to year when setting rates based on a test year.

Request for Admission No. 20 Admit that changes in allocations and application of direct expenses between AT's state operations (such as Florida, Pennsylvania, Texas, etc.) over more than one year could result in over or under collection of a particular state if all state rate cases are not based on a single test year.

Objection: This request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waving the foregoing objection, Aqua Texas responds as follows

Response: Cannot admit or deny. The benchmark for what would be considered "over or under collection" is not clear. Expenses will necessarily change from year to year when setting rates based on a test year. Moreover, Aqua Texas has not reviewed this issue in connection with its Application nor was such review required.

Request for Admission No. 21 Admit that AT's percent increase in operating expenses in Texas from 2010 to 2011 exceeds Aqua America's percent increase in operating expenses for all states in which it provides water service for that same time period.

Objection: This request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waving the foregoing objection, Aqua Texas responds as follows.

Response: Cannot admit or deny. Aqua Texas has not reviewed this issue in connection with its Application nor was such review required.

Request for Admission No. 22 Admit that the rate of return requested by AT in Texas in this case would be the highest rate of return granted to Aqua America for water operations in any other state in which Aqua America provides water service within the past four years.

Objection: This request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waving the foregoing objection, Aqua Texas responds as follows.

Response: Cannot admit or deny. Aqua Texas has not reviewed this issue in connection with its Application nor was such review required. Further, it is not clear whether the term "granted"

would include settled authorizations, nor is it clear whether the term “rate of return” is referring to overall rate of return or return on equity. This information is equally available to both Aqua Texas and the ED in the public domain.

Request for Admission No. 23 Admit that AT’s accumulated deferred federal income tax balance provides capital to AT and Aqua America by collecting federal income tax from customers before it is due to the Internal Revenue Service.

Objection: This request is vague and ambiguous. Subject to and without waving the foregoing objection, Aqua Texas responds as follows

Response: Deny.

Request for Admission No. 24 Admit that states other than Texas (where Aqua America provides water service) treat accumulated deferred federal income tax as a deduction to rate base for the purposed for determining return on invested capital.

Response: Admit.

Request for Admission No. 25 Admit that Aqua America provides water services in states other than Texas that do not allow both construction work in progress (CWIP) and allowance for funds used during construction (AFUDC) in the same application.

Objection: This request seeks information that is not relevant and is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waving the foregoing objection, Aqua Texas responds as follows.

Response: Cannot admit or deny. Aqua Texas has not reviewed this issue, was not required to for its application, and is not aware of what other states do with respect to this issue.

Request for Admission No. 26 Admit that Aqua Texas is attempting to recover both CWIP and AFUDC in this rate case.

Response: Deny.

Request for Admission No. 27 Admit that CWIP and AFUDC are both methods for recovering interest on funds used during construction of infrastructure assets.

Response: Deny.

Request for Admission No. 28 Admit that a change from using CWIP and AFUDC or from AFUDC to CWIP could cause an over recovery in interest on a group of assets over the time it is recovered.

Response: Deny.

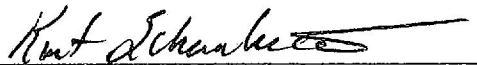
VERIFICATION

STATE OF TEXAS

COUNTY OF TRAVIS


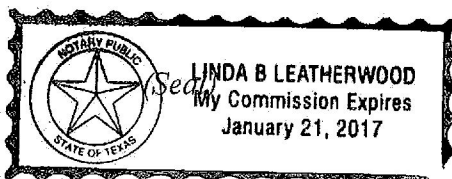
BEFORE ME, the undersigned notary, on this day, personally appeared KURT SCHEIBELHUT who after being duly sworn on oath, according to law, deposes and says:

My name is Kurt Scheibelhut. I am over the age of 18 years, of sound mind, and competent to make this affidavit. I have read the foregoing Answers to Interrogatories and the facts stated in them are true and correct. I make this statement based upon my personal knowledge and upon information received from other persons. @



Kurt Scheibelhut
Regional Manager of Accounting
Aqua Texas, Inc.
1106 Clayton Lane, Suite 400W
Austin, Texas 78723

SWORN TO and SUBSCRIBED before me by Kurt Scheibelhut on February 4, 2013
2013.


Notary Public in and for the State of Texas

My commission expires: January 21, 2017

**SOAH DOCKET NO. 582-14-1051
TCEQ DOCKET NO. 2013-2007-UCR**

APPLICATION OF AQUA TEXAS, INC. AND AQUA UTILITIES, INC. D/B/A AQUA TEXAS FOR WATER AND SEWER RATE/TARIFF CHANGES IN THE SOUTHEAST REGION IN CHAMBERS, LIBERTY, AND JEFFERSON COUNTIES, CCN NOS. 11157, 13203, 20453, AND 21065, APPLICATION NOS. 37696-R AND 37697-R	§ § § § § § § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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**AQUA TEXAS RESPONSES TO EXECUTIVE DIRECTOR'S FIRST SET OF
DISCOVERY REQUESTS TO AQUA TEXAS**

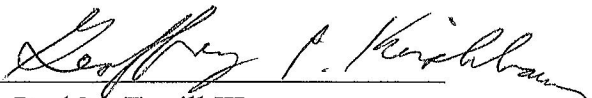
To: TCEQ, Executive Director, by and through his attorneys of record, Kayla Murray and Jessica Rogers, MC-175, P.O. Box 13087, Austin, TX 78711-3087

Aqua Texas, Inc. and Aqua Utilities, Inc. d/b/a Aqua Texas ("Aqua Texas") serve the attached Responses to the TCEQ Executive Director's ("ED") First Requests for Disclosure, Interrogatories, Requests for Production, and Requests for Admissions to Aqua Texas pursuant to Rules 191-198 of the Texas Rules of Civil Procedure upon the TCEQ Executive Director by and through his attorneys of record.

Respectfully submitted,

THE TERRILL FIRM, P.C.

By: _____



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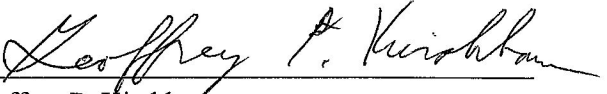
**ATTORNEYS FOR AQUA TEXAS, INC. AND AQUA
UTILITIES, INC. D/B/A AQUA TEXAS ("AQUA
TEXAS")**

CERTIFICATE OF SERVICE

I hereby certify that on March 25, 2014, a true and complete copy of the foregoing was sent to the following by facsimile, overnight delivery, or by first class mail:

Parties	Representative / Address	Phone/Fax/E-mail Address
TCEQ Executive Director	Kayla Murray Jessica Rogers Executive Director, TCEQ MC-175 P.O. Box 13087 Austin, TX 78711-3087	Tel: (512) 239-4761 Fax: (512) 239-0606 kayla.murray@tceq.texas.gov jessica.rogers@tceq.texas.gov
Office of Public Interest Counsel of TCEQ	Eli Martinez TCEQ, OPIC MC-103 P.O. Box 13087 Austin, TX 78711-3087	Tel: (512) 239-6363 Fax: (512) 239-6377 eli.martinez@tceq.texas.gov
Office of Public Utility Counsel	Jim Rourke Ross Henderson Office of Public Utility Counsel PO Box 12397 Austin, TX 78711-2397	Tel: (512) 936-7510 Fax: (512) 936-7525 jim.rourke@opuc.texas.gov ross.henderson@opuc.texas.gov
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Parties	Representative / Address	Phone/Fax/E-mail Address
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Crawdads, Inc.	David K. Moore 870 19 th St Beaumont, TX 77706	Tel: (409) 658-9291 Fax: (409) 745-1042 mycrawdad@aol.com



Geoffrey P. Kirshbaum